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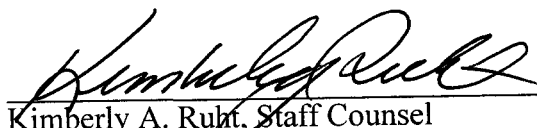
IN THE MATTER OF THE APPLICATION OF
MOUNT TIPTION WATER COMPANY, INC.
FOR AN INCREASE IN ITS WATER RATES.

DOCKET NO. W-02105A-09-0522

**STAFF'S NOTICE OF FILING DIRECT
TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of
Dorothy Hains and Alexander Ibhade Igwe of the Utilities Division in the above docket.

RESPECTFULLY SUBMITTED this 26th day of May 2010.


Kimberly A. Ruht, Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

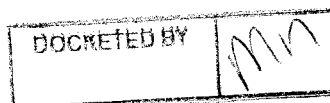
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MAY 26 2010



1 Copy of the foregoing mailed this
2 26th day of May, 2010, to:

3 Steve Wene, Esq.
4 Moyes Sellers & Sims, Ltd.
5 1850 North Central Avenue
6 Suite 1100
7 Phoenix, Arizona 85004

8 Karen Christensen

**DIRECT
TESTIMONY**

OF

**ALEXANDER IBHADE IGWE
DOROTHY HAINS**

DOCKET NO. W-02105A-09-0522

**IN THE MATTER OF THE APPLICATION OF
MOUNT TIPTON WATER COMPANY,
AN ARIZONA CORPORATION, FOR AN
INCREASE IN ITS WATER RATES**

MAY 26, 2010

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

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Commissioner

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IN THE MATTER OF THE APPLICATION)
OF MOUNT TIPTON WATER COMPANY,)
AN ARIZONA CORPORATION, FOR AN)
INCREASE IN ITS WATER RATES)
_____)

DOCKET NO. W-02105A-09-0522

DIRECT TESTIMONY

OF

ALEXANDER IBHADE IGWE, CPA

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 26, 2010

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PURPOSE OF TESTIMONY	2
BACKGROUND	2
CONSUMER SERVICE.....	4
REVENUE REQUIREMENT	5
SUMMARY OF ADJUSTMENTS	5
RATE OF RETURN	7
RATE BASE.....	8
<i>Fair Value Rate Base</i>	8
<i>Rate Base Summary</i>	8
<i>Rate Base Adjustment No. 1 – Utility Plant in Service</i>	9
<i>Rate Base Adjustment No. 2 – Accumulated Depreciation</i>	10
<i>Rate Base Adjustment No. 3 – Advances-in-Aid of Construction</i>	11
<i>Rate Base Adjustment No. 4 – Customer Deposits</i>	12
<i>Rate Base Adjustment No. 5 – Working Capital Allowance</i>	12
OPERATING INCOME	13
<i>Revenues</i>	13
EXPENSES.....	13
<i>Operating Income Adjustment No. 1 – Purchased Power</i>	13
<i>Operating Income Adjustment No. 2 – Repairs & Maintenance</i>	15
<i>Operating Income Adjustment No. 3 – Water Testing Expense</i>	16
<i>Operating Income Adjustment No. 4 – Insurance – General Liability</i>	17
<i>Operating Income Adjustment No. 5 – Depreciation and Amortization Expense</i>	18
<i>Operating Income Adjustment No. 6 – Property Tax Expense</i>	19
<i>Operating Income Adjustment No. 7 – Franchise Tax</i>	20
RATE DESIGN	21
RECOMMENDATIONS.....	24

**EXECUTIVE SUMMARY
MOUNT TIPTON WATER COMPANY
DOCKET NO. W-02105A-09-0522**

Mt. Tipton Water Company, Inc. ("Mt. Tipton" or "Company") is a non-profit Arizona corporation located approximately 35 miles northeast of the City of Kingman, Mohave County, Arizona. In Decision No. 40644, dated May 26, 1970, the Company was certificated to provide water service in the town of Dolan Springs. It currently serves approximately 720 customers based on rates and charges approved by the Arizona Corporation Commission ("Commission") Decision No. 67162, dated August 10, 2004.

Mt. Tipton seeks Commission authority to increase its revenues by \$78,014 or 26.49 percent over its reported test year revenues of \$294,493, for a total of \$372,506. The Company's proposal results in operating income of \$58,811 or a 10 percent rate of return on its reported Original Cost Rate Base ("OCRB") of \$588,112.

Staff recommends total operating revenues of \$353,975, an increase of \$59,482 or 20.20 percent over its reported test year revenues. Staff's recommended revenue requirement results in an operating income of \$47,787 or a rate of return of 8.39 percent on Staff's adjusted OCRB of \$569,275. Also, Staff's recommended revenue requirement provides the Company with adequate cash flow to meet a Debt Service Ratio of 1.5, required for its debt covenant with the Water Infrastructure Finance Authority ("WIFA").

The Company's current rate structure is tiered, with three tiers for 5/8 x 3/4-inch meter and 3/4-inch meter; and two tiers for the larger meter sizes. The current rate design consists of three commodity rates for customers on 5/8 x 3/4-inch meter and 3/4-inch meter. The second tier and third-tier commodity rates for 5/8 x 3/4-inch meter are assessed as the first tier and second-tier commodity rates for meters larger than 3/4-inch meter. The Company charges the third tier commodity rate for bulk water sales, and 25 cents per 58-gallons for water sold through its vending machine.

Mt. Tipton is proposing to retain its current rate structure and rate design in this proceeding. However, the Company proposes to reconfigure the quantity of water sold through its vending machine from \$0.25 per 58-gallons to \$0.25 per 40-gallons. This proposal is predicated on the Company's observed customer difficulty associated with dispensing 58-gallons to customers' smaller containers. As a result, customers have been observed to turn off the vending machine before it dispenses 58 gallons, thus resulting in waste. The Company's proposal to reconfigure its vending machine to 40-gallons will eliminate difficulties associated with its current tariff of \$0.25 per 58-gallons.

The Company proposed rate design results in an increase in the monthly bill of a residential customer on a 5/8 x 3/4-inch meter with a median consumption of 2,305-gallons from \$24.65 to \$31.84, an increase of \$7.19 or 29.2 percent.

The Company's current rate structure is comprised of high break-over for 3/4-inch meter and larger sized meters. For example, the 1-inch meter has a first-tier break-over of 25,000-gallons. During the test year, average and median usage on 1-inch meter were at 9,792-gallons and 9,750-gallons, respectively. Staff has determined that such disparity between break-over points and actual consumption levels will not engender efficient use of water by Mt. Tipton's customers. Because the consumption patterns of larger sized meters are not materially different than that of 5/8 x 3/4-inch meter, Staff is recommending a three-tiered rate structure, with the same break-over of 4,000-gallons for the first-tier, 9,000-gallons for the second-tier and over 9,000-gallons for the third-tier, for all meter sizes. Staff recommends Commission approval of its reconfigured rate structure. Further, Staff recommends adoption of the Company's proposed reconfiguration of its vending machine tariff to \$0.25 per 40-gallons.

Staff has determined that the Company's current and proposed rates generate approximately 60 percent of revenues from monthly minimum charges. This skewed rate design is inconsistent with promoting efficient water use. Staff is recommending that its recommended rate increase be generated through commodity rates only. Staff's recommendation will hold the Company's monthly minimum at current levels. This results in rates that generate approximately 50 percent of revenues from both monthly minimum charges and commodity rates. Staff's recommended rates will increase the monthly bill of a residential customer on a 5/8 x 3/4-inch meter with a median consumption of 2,305-gallons from \$24.65 to \$27.30, an increase of \$2.65 or 10.8 percent.

Staff recommends that the Commission approve its recommended rates and charges in this proceeding.

Staff recommends that the rates and charges approved by the Commission in this proceeding not become effective until the Mt. Tipton demonstrate that its water loss is less than 10 percent, and it is in full compliance with Decision No. 67162.

Staff recommends that the Company adopt its recommended depreciation rates by individual National Association of Regulatory Commissioners Association plant category, depicted on Figure 5 of Engineering Report.

Staff recommends that the Company's emergency interim surcharge be discontinued on December 31, 2010 or on the effective date of the decision in this proceeding, whichever comes first.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Alexander Ibhade Igwe. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. What is your current employment position?

A. I am employed with the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") as an Executive Consultant III.

Q. Briefly describe your responsibilities as an Executive Consultant.

A. In my capacity as an Executive Consultant III, I perform complex financial analysis and make recommendations to the Commission on rate base, revenue requirement and rate design; for water, wastewater, electric and gas rate proceedings. Also, I provide recommendations on financing, merger and acquisitions, sales of assets, issuance and extension of Certificate of Convenience and Necessity ("CC&N") as well as other ancillary matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree in Accounting from the University of Benin, Nigeria and a Master of Information Systems Management degree from Keller Graduate School of Management of Devry University. I am a licensed Certified Public Accountant in the States of Arizona. I have attended various training classes and courses regarding regulatory audits, rate-making, and other utility related matters. In addition, in my over nine years working for the Utilities Division, I have prepared Staff Reports and pre-filed testimonies and presented oral testimonies in several proceedings before the Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. I am presenting Staff's analysis and recommendations regarding Mount Tipton Water Company, Inc.'s ("Mt. Tipton" or "Company") application for a increases in its rates and charges based on a test year ended June 30, 2009. My testimony addresses the Company's proposed rate of return, rate base, revenue requirement and rate design.

Q. What is the basis of your recommendations?

A. I reviewed the Company's filing and conducted a regulatory audit of its financial statements and records to determine whether sufficient, relevant, and reliable evidence exists to support its requested rate increase. The regulatory audit entailed examination and testing of financial information, accounting records and other supporting documentation, as well as verifying that the accounting principles applied by the Company were in accordance with National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USoA").

BACKGROUND

Q. Please provide a brief description of the Company.

A. Mt. Tipton is a non-profit Arizona corporation located approximately 35 miles northeast of the City of Kingman, Mohave County, Arizona. In Decision No. 40644, dated May 26, 1970, the Company was certificated to provide water service in the town of Dolan Springs. Mt. Tipton currently serves approximately 720 customers based on rates and charges approved by the Commission, in Decision No. 67162, dated August 10, 2004

1 **Q. Please state the Company's request in this application.**

2 A. Mt. Tipton seeks Commission authority to increase its revenues by \$78,014 or 18.81
3 percent over its adjusted test year revenues of \$294,493, for a total of \$372,506. The
4 Company's proposal results in operating income of \$58,811 or a 10 percent rate of return
5 on its reported Original Cost Rate Base ("OCRB") of \$588,112.

6
7 **Q. Has the Company revised its reported balance of gross utility plant in service and**
8 **accumulated depreciation since its original filing?**

9 A. Yes. Mt. Tipton revised its filed Gross Utility Plant in Service ("UPIS") to \$1,916,740,
10 and accumulated depreciation to \$1,213,304, in its responses to Staff's Data Request AII
11 4-1. This revision results from errors found in the Company's accounting records during
12 this proceeding. The impact of its revision to OCRB will be fully discussed under the
13 section titled Rate Base.

14
15 **Q. Please briefly describe the Company's capital structure.**

16 A. The Company's capital structure is comprised of \$777,387 of long-term debt and a
17 negative equity balance of \$364,892. Although, the Company has no positive equity or
18 investors provided funds, it is seeking a 10 percent rate of return in this proceeding.

19
20 **Q. It is typical for a company with no equity to seek a rate of return?**

21 A. No. In the normal course of rate regulation, a rate of return is provided on investors
22 provided capital or equity. In the case of small utilities with limited OCRB or no equity,
23 operating income is derived based on cash flow analysis or operating margin. Staff has
24 utilized this methodology to insure Mt. Tipton has adequate cash flow to meet a minimum
25 Debt Service Coverage ("DSC") of 1.20.

1 **CONSUMER SERVICE**

2 **Q. Please summarize the Company's consumer service history.**

3 A. Staff's search of the Commission database indicates that between 2007 and April 1, 2010,
4 the Company had twenty-eight (28) complaints and two (2) opinions. The two recorded
5 opinions are in opposition to the Company's requested rate increase. All reported issues
6 have been successfully resolved.

7
8 **Q. Has the Company published a notice of its pending rate application?**

9 A. Yes. Mt. Tipton mailed a Public Notice of its rate application and hearing to each
10 customer of record, on January 19, 2010. The *Affidavit of Mailing* was docketed with the
11 Commission on January 28, 2010. On February 19, 2010, the Company filed an *Affidavit*
12 *of Publication*, showing that its Public Notice was published in *The Hometown Crier*, a
13 newspaper of general circulation, on January 22, 2010.

14
15 **Q. Did Staff review a sample of the Company's bill format?**

16 A. Yes. Our review shows that Company's bill format is compliant with Arizona
17 Administrative Code ("A.A.C.") § R14-2-409.B.2.

18
19 **Q. Is Mt. Tipton in good standing with Corporation Division of the Commission?**

20 A. Yes. Staff has confirmed that the Company is in good standing with the Corporation
21 Division of the Commission.

22
23 **Q. Has the Company a Curtailment Tariff on file with the Commission?**

24 A. Yes. The Company's curtailment Tariff became effective on September 22, 2004.
25

1 **Q. Has the Company filed a Cross-Connection/Backflow Tariff with the Commission?**

2 A. Yes. Our review of the Commission records indicates that the Company's cross-
3 connection/backflow tariff became effective on December 28, 1995.

4
5 **REVENUE REQUIREMENT**

6 **Q. Please summarize the Company's proposed revenue requirement in this proceeding.**

7 A. Mt. Tipton proposes annual operating revenues of \$372,506, an increase of \$78,014 or
8 26.49 percent over its test year revenues of \$294,493. The Company's proposal results in
9 an operating income of \$58,811 or 10.00 percent rate of return over an OCRB of
10 \$588,112.

11
12 **Q. Please state Staff's recommending for revenue requirement.**

13 A. Staff recommends total operating revenues of \$353,975, \$59,482 or 20.20 percent over its
14 reported test year revenues. Staff's recommended revenue requirement results in an
15 operating income of \$47,787 or an 8.39 percent rate of return on Staff's adjusted OCRB of
16 \$569,275. Staff's recommended revenue requirement provides the Company with
17 adequate cash flow to meet a minimum Debt Service Ratio of 1.20, required for its debt
18 covenant with the Water Infrastructure Finance Authority ("WIFA").

19
20 **SUMMARY OF ADJUSTMENTS**

21 **Q. Please summarize the adjustments addressed in this testimony.**

22 A. Staff's analysis addresses the following adjustments:

23
24 Gross Utility Plant in Service ("UPIS") – This adjustment increase UPIS by \$189,160 to
25 correctly restate the Company's UPIS at test year end.
26

1 Accumulated Depreciation and Amortization – This adjustment decreases rate base by
2 \$64,696 to reflect the impact of Staff's recalculation of accumulated depreciation based on
3 Staff adjusted gross utility plant in service.

4
5 Advances-in-Aid of Construction ("AIAC") – This adjustment increases the Company's
6 reported test year end AIAC balance by \$121,992 to correct for accounting error in its
7 filing.

8
9 Customer Deposits – This adjustment decreases rate base by \$14,940 to reflect test year
10 end customer deposits.

11
12 Working Capital – This adjustment reduces rate base by \$6,368 to reflect the impact of
13 Staff adjusted operating expenses on working capital, derived through the formulaic
14 method.

15
16 Purchased Power – This adjustment decreases test year purchased power by \$4,722 to
17 reflect Staff's disallowance of pumping power costs related to excess non-account water
18 loss, over the maximum allowable loss of 10 percent.

19
20 Repairs & Maintenance – This adjustment reduces operating expenses by \$3,000 to reflect
21 a normalized level of cost incurred for cleaning chamber Well.

22
23 Water Testing Expense – This adjustment increases operating expenses by \$2,973 to
24 reflect an appropriate cost level for Monitoring Assistant Program ("MAP") testing.
25

1 Insurance – General Liability – This adjustment reduces operating expenses by \$13,518 to
2 reflect the cost of the Company's new insurance policy.

3
4 Depreciation Expense – This adjustment increases operating expenses by \$14,422 to
5 reflect Staff's recalculation of depreciation expense based on Staff adjusted depreciable
6 UPIS and Commission approved depreciation rates.

7
8 Property Tax Expense – This adjustment decreases operating expenses by \$3,805 to reflect
9 Staff's recalculation of test year property tax expense based on the Arizona Department of
10 Revenue's Centrally Assessed Properties Value methodology.

11
12 Franchise Tax Expenses – This adjustment decreases operating expenses by \$381 to
13 reflect Staff's recalculation of Franchise tax based on 2.00 percent of test year operating
14 revenues.

15
16 **RATE OF RETURN**

17 **Q. Please state the Company's requested rate of return in this proceeding.**

18 A. The Company seeks Commission approval of a 10 percent rate of return on its reported
19 OCRB in this proceeding.

20
21 **Q. What is a DSC?**

22 A. A DSC represents the number of times internally generated cash will cover required
23 principal and interest payments on short-term and long-term debt. A DSC greater than 1.0
24 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC
25 less than 1.0 means that debt service obligations cannot be met by cash generated from
26 operations and that another source of funds is needed to avoid default

1 **Q. What rate of return is Staff recommending for Mt. Tipton?**

2 A. As shown on Schedule AII-1, Staff recommends a rate of return of 8.37 percent, which
3 yields a DSC of 1.26 percent.
4

5 **Q. Has the Company proposed a Fair Value Rate of Return ("FVROR") in this**
6 **proceeding?**

7 A. No.
8

9 **Q. Please state Staff's recommendation regarding FVROR for the Company.**

10 A. Staff recommends a FVROR of 8.37 percent in this proceeding.
11

12 **RATE BASE**

13 *Fair Value Rate Base*

14 **Q. Did the Company provide any schedule showing elements of Reconstruction Cost**
15 **New Rate Base ("RCND")?**

16 A. No. The Company did not present the result of an RCND study in its filing. Therefore, it
17 appears that the Company intends that its requested OCRB be treated as its Fair Value
18 Rate Base ("FVRB").
19

20 *Rate Base Summary*

21 **Q. Please state Staff's recommendation for rate base?**

22 A. As shown on Schedule AII-1 and AII-3, Staff recommends an OCRB of \$569,275,
23 \$18,837 less than the Company filed OCRB of \$588,112.
24

1 **Q. Please summarize Staff's adjustments to the Company's proposed rate base.**

2 A. Staff's OCRB adjustment of \$18,837 is comprised of an increase of \$189,160 to UPIS, an
3 increase of \$64,969 to accumulated depreciation, an increase of \$121,922 to AIAC, an
4 increase of \$14,940 to customer deposits and a decrease of \$6,368 to working capital
5 allowance. These adjustments are fully discussed below:
6

7 *Rate Base Adjustment No. 1 – Utility Plant in Service*

8 **Q. Please state the Company's reported test year balance of UPIS.**

9 A. On Schedule B-1 and B-2, the Company reports UPIS balance of \$1,727,581.
10

11 **Q. Has the Company revised its test year end balance of UPIS during this proceeding?**

12 A. Yes. The Company restated its year end balance of UPIS as \$1,916,741, an increase of
13 \$189,160 over its filed balance of \$1,727,581. The Company claims that the variance
14 between its filed and revised UPIS balances, results primarily from misclassification of
15 plant additions to AIAC.
16

17 **Q. Did Staff review the Company's revised UPIS balance?**

18 A. Yes. Staff's data request AII 4-1 and AII 7-1 were triggered by certain inconsistencies
19 observed in reviewing the Company's reported plant balances. Staff has evaluated the
20 Company responses to the above data requests, and concluded that the revised plant
21 balance of \$1,916,741 is supported by adequate records.
22

23 **Q. What is the purpose of Staff's adjustment to UPIS?**

24 A. Staff's Rate Base Adjustment No. 1, shown on Schedule AII-5, increases UPIS by
25 \$189,160 to correctly restate the Company's UPIS balance.
26

1 **Q. Please state Staff's recommended UPIS.**

2 A. Staff recommends UPIS balance of \$1,916,741 in this proceeding.
3

4 *Rate Base Adjustment No. 2 – Accumulated Depreciation*

5 **Q. Please state the Company's filed test year end balance of Accumulated Depreciation.**

6 A. The Company filed Schedule B-1 shows a balance of \$1,147,977 for accumulated
7 depreciation.
8

9 **Q. Has the Company revised its reported accumulated depreciation?**

10 A. Yes. The Company has recalculated accumulated depreciation based on its revised plant
11 balances. In its response to Staff data request AII 7-2, the Company restated its
12 accumulated depreciation as \$1,213,308. The Company's accumulated depreciation was
13 derived by adding depreciation expenses since the last test year, to the balance approved in
14 that proceeding. Staff notes that the Company's worksheet indicates that \$867,663 was
15 approved by the Commission in Decision No. 67162, rather than \$867,033, a variance of
16 \$630.
17

18 **Q. Did Staff calculate the Company's accumulated depreciation?**

19 A. Yes. Staff's recalculation of depreciation expense since the last rate case, confirms that
20 the Company's calculation shown on its response to Staff's Data Request AII 7-2 is
21 accurate. However, Staff recalculation results in accumulated depreciation of \$1,212,673,
22 \$630 less than the Company's revised proposal. As noted above, this difference is due to
23 the Company's inadvertent error is stating the Commission approved accumulated
24 depreciation in Decision No. 67162.
25

1 **Q. Please state Staff's recommended adjustment to the Company filed balance of**
2 **accumulated depreciation.**

3 A. As shown on Schedule AII-6, Rate Base Adjustment No. 2 increases accumulated
4 depreciation by \$64,696, to correctly restate the Company's filed accumulated
5 depreciation of \$1,147,977.

6
7 **Q. What is Staff recommending for accumulated depreciation?**

8 A. Staff recommends accumulated depreciation of \$1,212,673 in this proceeding
9

10 *Rate Base Adjustment No. 3 – Advances-in-Aid of Construction*

11 **Q. Please state the Company's proposed AIAC**

12 A. The Company in its filed Schedule B-1 reported a test year end AIAC balance of \$22,612.
13

14 **Q. Has the Company revised its reported test year end AIAC balance?**

15 A. Yes. The Company has revised its reported balance of test year end AIAC, from \$22,612
16 to \$144,604. In its response to Staff Data Request AII 4-3, the Company admits that its
17 filed AIAC balance was understated by \$121,992 due to accounting errors.
18

19 **Q. Please state Staff's recommended adjustment to AIAC.**

20 A. As shown on Schedule AII-7, Rate Base Adjustment No. 3 increases AIAC by \$121,992
21 to correct for accounting error in the Company's filing.
22

23 **Q. What is Staff recommending regarding for AIAC?**

24 A. Staff recommends a test year end AIAC balance of \$144,604.
25

Rate Base Adjustment No. 4 – Customer Deposits

Q. Did the Company reflect the balance of customer deposits in its proposed OCRB?

A. No.

Q. Is it a normal ratemaking procedure to reduce OCRB by the balance of customer deposit at test year end?

A. Yes. Because customer deposit is non-investor provided capital, it is treated as a reduction to OCRB. In other words, the balance of customer deposits is eliminated from OCRB to insure that investors do not earn a return on customer deposits.

Q. Is Staff recommending any adjustment to reduce Staff adjusted OCRB by the balance of customer deposits?

A. Yes. As shown on Schedule AII-8, Rate Base Adjustment No. 4 reduces OCRB by \$14,940 of test year end customer deposits.

Rate Base Adjustment No. 5 – Working Capital Allowance

Q. What is the Company proposing for working capital allowance in this proceeding?

A. As shown on Schedule B-1, the Company proposes \$98,622 for working capital. The Company's proposal is derived based on the formulaic method, instead of the generally preferred lead-lag study.

Q. Is Staff opposed to the Company's use of the formulaic method for deriving its proposed working capital allowance?

A. No. In past proceedings, small utility companies, such as Mt. Tipton, have argued that a lead-lag study is overly complicated and cost prohibitive.

1 **Q. Has Staff adopted the use of formulaic method in deriving its recommended working**
2 **capital in this proceeding?**

3 A. Yes. Staff's calculation shown on Schedule AII-9, result in Rate Base Adjustment No. 5
4 which reduces the Company's proposed working capital by \$6,368, from \$98,622 to
5 \$92,254. This adjustment reflects the impact of Staff's adjusted operating expenses on
6 cash working capital.

7
8 **Q. What is Staff recommending for working capital allowance in this proceeding?**

9 A. Staff recommends a working capital allowance of \$92,254.

10
11 **OPERATING INCOME**

12 *Revenues*

13 **Q. Please summarize the Company's test year Operating Income.**

14 A. The Company reports an adjusted test year operating loss of \$17,643.

15
16 **Q. What is Staff's adjusted test year operating income?**

17 A. Staff has determined that the Company's test year operating loss is \$9,611, \$8,031 less
18 than the Company's reported test year results. The difference between Staff's adjusted
19 test year operating loss and the Company's filed test year operating loss is attributable to
20 the following adjustments.

21
22 **EXPENSES**

23 *Operating Income Adjustment No. 1 – Purchased Power*

24 **Q. What is the Company reported Purchased Power expense?**

25 A. The Company reports \$93,529 of purchased power expense.

1 **Q. Did the Company provide adequate support for its reported purchased power**
2 **expense?**

3 A. Yes.
4

5 **Q. Why is Staff proposing an adjustment to purchased power expense?**

6 A. Staff's recommended adjustment to purchased power expenses is intend to account for the
7 Company's water loss in excess of the maximum allowable non-account water loss of 10
8 percent. As fully, discussed on page 6 of Engineering Report presented by Staff Witness,
9 Dorothy Hains, the Company was required by Commission Decision No. 67162 to reduce
10 its non-account water loss to 10 percent. Staff has determined that the Company's water
11 loss was approximately 23 percent at the end of the test year.
12

13 **Q. Did the Company incur costs associated with excess water loss?**

14 A. Yes. Primarily, the Company incurs pumping power cost for its pumped water, including
15 excess water loss. Also, labor costs could be incurred for managing excess water loss.
16 Staff finds that it is inappropriate for the Commission to allow the Company to recover
17 such costs from the ratepayers, given that the Commission has afforded Mt. Tipton with
18 ample opportunity to effectively manage its excess water loss.
19

20 **Q. Please explain Staff's adjustment to purchased power expense.**

21 A. Staff's adjustment to purchased power expense is calculated based on water loss in excess
22 of the maximum allowable non-account water loss of 10 percent. As demonstrated on
23 page 6 of Engineering Report and Schedule AII-12, the Company's test water loss was
24 22.79 percent, of which 12.79 percent is in excess of maximum allowable non-account
25 water loss. Staff's Operating Income Adjustment No. 1 disallows 12.79 percent of test
26 year purchased power expense.

1 **Q. What is Staff's recommended adjustment to purchased power expense?**

2 A. As shown on Schedule AII-12, Staff recommends an adjustment of \$4,722 to test year
3 purchased power expense to account for excess water loss.

4
5 **Q. Please state Staff's recommended purchased power expense.**

6 A. Staff recommends \$32,204 for purchased power expense, \$4,722 less than the Company's
7 proposal.

8
9 *Operating Income Adjustment No. 2 – Repairs & Maintenance*

10 **Q. Please state the Company's reported repairs and maintenance expense.**

11 A. As shown on Schedule C-1, the Company reports \$14,364 of test year repairs and
12 maintenance expense. This amount includes \$4,500 related to cleaning one of the
13 Company's well casing.

14
15 **Q. Did Staff find that the Company's reported cost of cleaning its well casing is a
16 recurring expense?**

17 A. No. Staff has determined that the cost of cleaning well casing is not an annual cost, and
18 thus non-recurring. In instances when necessary cost of service is determined not to be an
19 annual recurring cost, such cost are normalized over a reasonable period for which it
20 provides economic benefit to the rate payers. Based on this premise, Staff concludes that
21 it is reasonable to normalize the Company's reported cost for cleaning its well casing over
22 three years.

23
24 **Q. What is Staff recommending regarding the cost of cleaning chamber well?**

25 A. As shown on Schedule AII-13, Operating Income Adjustment No. 2, Staff recommends a
26 normalized annual cost of \$1,500, \$3,000 less than the Company's proposal. Staff's

1 recommended adjustment to reduce repairs and maintenance expense by \$3,000
2 normalizes the cost of cleaning its well casing over three years.
3

4 **Q. Please state Staff's recommendation for repairs and maintenance.**

5 A. Staff recommends \$11,364 for repairs and maintenance, \$3,000 less than the Company's
6 reported cost.
7

8 *Operating Income Adjustment No. 3 – Water Testing Expense*

9 **Q. Please state the Company's proposed water testing expense.**

10 A. The Company proposes \$3,716 for water testing expense.
11

12 **Q. Is the Company required to participate in MAP?**

13 A. Yes. Because Mt. Tipton serves less than 10,000 connections, it is subject to mandatory
14 participation in ADEQ MAP.
15

16 **Q. Did Staff review the appropriateness of the Company reported water testing
17 expense?**

18 A. Yes. As fully discussed on page 4, Section F of Engineering Report, Staff has analyze
19 costs related to the Company's participation in MAP. Staff's review indicates that the
20 Company's reported test year water testing costs is understated. Staff finds that based on
21 MAP's parameters for determining appropriate water testing costs, the Company's annual
22 water testing cost is estimated to be \$6,689.
23

1 **Q. Is Staff recommending adoption of its calculated MAP water testing cost in this**
2 **proceeding?**

3 A. Yes. As shown on Schedule AII-14, Operating Income Adjustment No. 3, Staff
4 recommends an increases of \$2,973 to water testing expense.

5
6 **Q. What is Staff recommending for water testing expense in this proceeding?**

7 A. Staff recommends \$6,689 for water testing expense.

8
9 *Operating Income Adjustment No. 4 – Insurance – General Liability*

10 **Q. What is the Company proposing for insurance cost in this proceeding.**

11 A. The Company is requesting recovery of \$22,503 incurred for general liability insurance
12 during the test year.

13
14 **Q. Is it normal for a utility to incur such a high cost for general liability insurance?**

15 A. No. A Company representative informed Staff that its policy was unduly high because of
16 a liability claim made against the Company. However, the Company has procured a new
17 policy at a more reasonable rate subsequent to the test year end.

18
19 **Q. Has the Company provided proof of its new insurance policy and the related costs?**

20 A. Yes. In its response to Staff's Data Request AII 6-7, Mt. Tipton stated that it recently
21 procured general liability insurance from American Alternative Insurance Corporation
22 ("AAIC"), at an annual cost of \$8,985.

1 **Q. Is Staff recommending an adjustment to reflect the annual cost of the Company's**
2 **new policy?**

3 A. Yes. As shown on Schedule AII-15, Operating Income Adjustment No. 4 reduces test year
4 general liability insurance cost by \$13,518. This adjustment reduces test year expense to
5 the cost of the Company's new insurance policy.

6
7 **Q. What is Staff recommending for insurance expense?**

8 A. Staff recommends \$8,985 for general liability insurance expense.
9

10 *Operating Income Adjustment No. 5 – Depreciation and Amortization Expense*

11 **Q. What is the Company's proposed depreciation and amortization expense?**

12 A. The Company proposes \$35,273 for depreciation and amortization expense.
13

14 **Q. Did Staff re-calculate the Company's depreciation and amortization expense?**

15 A. Yes. As shown on Schedule AII-16, Staff has recalculated the Company's depreciation
16 expense by multiplying Staff adjusted test year end depreciable UPIS and Commission
17 approved depreciations rates. Staff's recalculation results in depreciation and amortization
18 expense of \$49,695, \$14,422 higher than the Company's reported depreciation and
19 amortization expense.
20

21 **Q. Please explain the difference between Staff's recommended and Company proposed**
22 **depreciation and amortization expense.**

23 A. Staff employed the same methodology and depreciation rates utilized by the Company in
24 calculating its reported depreciation and amortization expense. Because the Company's
25 plant balances were inadvertently understated in its filing, its reported depreciation and

1 amortization expense was understated. A secondary factor, relates to Staff's application
2 of 3.17 percent (composite depreciation rate) in the amortization of CIAC.

3
4 **Q. Is Staff recommending an adjustment to deprecation and amortization expense?**

5 A. Yes. As shown on Schedule AII-16, Operating Income Adjustment No. 5, increases test
6 year cost by \$14,422. This adjustment increases test year depreciation and amortization
7 expense from \$35,273 to \$49,695.

8
9 **Q. Please state Staff's recommendation for depreciation expense?**

10 A. Staff recommends \$49,695 for depreciation and amortization expense.

11
12 *Operating Income Adjustment No. 6 – Property Tax Expense*

13 **Q. What is the Company proposing for property expense?**

14 A. The Company reports \$17,019 for test year property tax expense.

15
16 **Q. Has Staff recalculated property tax expense based on the Arizona Department of
17 Revenue ("ADOR") Centrally Assessed Properties Value method?**

18 A. Yes.

19
20 **Q. Does the ADOR's method provide an acceptable basis for determination of property
21 taxes in Arizona?**

22 A. Yes. Staff employs an adaptation of ADOR's method for calculating property tax
23 expense. As shown on Schedule AII-17, Staff has utilized this method and an assessment
24 ratio of 21.00 percent for calculating Mt. Tipton's property taxes.

1 **Q. Did Staff recalculation result in a different property tax expense that the Company**
2 **reported test year cost?**

3 A. Yes. As shown on Schedule AII-17, Operating Income Adjustment No. 6, Staff's
4 recalculated test year property tax expense is \$13,214, \$3,805 less than the Company's
5 reported cost. This adjustment results in a decrease of test year property tax expense from
6 \$17,019 to \$13,214.

7
8 **Q. What is Staff's recommending for property tax expense?**

9 A. Staff recommends \$13,214 for test year property tax expense.
10

11 *Operating Income Adjustment No. 7 – Franchise Tax*

12 **Q. Did the Company propose recovery of franchise tax in its filing?**

13 A. Yes. The Company states that Mohave County accesses it a 2.00 percent franchise tax on
14 gross revenue.
15

16 **Q. Did Staff recalculate the Company's test year franchise tax expense?**

17 A. Yes. Staff recalculated the Company's franchise tax expense based on its test year
18 adjusted total operating revenues. Staff's recalculation results in \$5,890 of franchise tax
19 expense, \$381 less than the Company's reported test year cost.
20

21 **Q. Is Staff proposing any adjustment to test year franchise tax expense?**

22 A. Yes. As shown on Schedule AII-18, Staff's Operating Income Adjustment No. 7, reduces
23 test year franchise tax expense by \$381.
24

25 **Q. Please state Staff's recommendation for franchise tax expense.**

26 A. Staff recommends \$5,890 for test year franchise tax expense.

RATE DESIGN

Q. Please describe the structure of the Company's current rate design

A. The Company's current rate structure is tiered, with three tiers for 5/8 x 3/4-inch meter and 3/4-inch meter; and two tiers for the larger meter sizes. The current rate design consists of three commodity rates for customers on 5/8 x 3/4-inch meter and 3/4-inch meter. The second tier and third-tier commodity rates for 5/8 x 3/4-inch meter are assessed as the first tier and second-tier commodity rates for meters larger than 1-inch meter.

Mt. Tipton currently charges third tier commodity rate for bulk water sales, and 25 cents per 58-gallons for water sold through its vending machine. It proposes to reconfigure the quantity of water sold through its vending machine from \$0.25 per 58-gallons to \$0.25 per 40-gallons. This proposal is predicated on the Company's observed customer difficulty associated with dispensing 58-gallons to customers' smaller containers. As a result, customers have been observed to turn off the vending machine before it dispenses 58 gallons, thus resulting in waste. The Company's proposal to reconfigure its vending machine to 40-gallons will eliminate difficulties associated with its current tariff of \$0.25 per 58-gallons.

Q. Please describe the Company's proposed rate design in this proceeding.

A. Mt. Tipton is proposing to retain its current rate structure and rate design in this proceeding. However, the Company proposes to reconfigure its water sales through its vending machine from \$0.25 per 58-gallons to \$0.25 per 40-gallons. This proposal is predicated on the Company's observation that its customers' water containers hold less than 58-gallons.

1 The Company proposed rate design results in an increase in the monthly bill of a
2 residential customer on a 5/8 x 3/4-inch meter with a median consumption of 2,305-
3 gallons from \$24.65 to \$31.84, an increase of \$7.19 or 29.2 percent.

4
5 **Q. Is the Company proposing any modification to its current service charges and service**
6 **line and meter installation charges?**

7 A. Yes. Mt. Tipton is proposing increases to its current service charges and service line and
8 installation charges to reflect prevailing costs of services. Its proposed service line and
9 meter installation charge for each meter size is identical to Staff's recommendation in this
10 proceeding.

11
12 **Q. Please comment on the Company's rate design.**

13 A. Its current and proposed rate design is comprised of high break-over for 1-inch meter and
14 larger sized meters. For example, the first-tier break-over for 1-inch meter is 25,000-
15 gallons. During the test year, the average and median usage by customers on 1-inch meter
16 were at 9,792-gallons and 9,750-gallons, respectively. Staff has determined that such
17 disparity between break-over points and actual consumption levels do not engender
18 efficient use of water. Because the consumption patterns of larger sized meters are not
19 materially different than that of 5/8 x 3/4-inch meter, Staff is recommending a three-tiered
20 rate structure, with the same break-over of 4,000-gallons for the first-tier; 9,000-gallons
21 for the second-tier; and over 9,000-gallons for the third-tier; for all meter sizes. Staff
22 recommends Commission approval of its reconfigured rate structure to encourage efficient
23 use of water. Further, Staff recommends adoption of the company's proposal to
24 reconfigure its vending machine tariff from \$0.25 per 58-gallons to \$0.25 per 40-gallons.

1 Also, Staff found that the Company's current and proposed monthly minimum charges
2 yield over 60 percent of its test year and proposed revenues. In this instance, Mt. Tipton's
3 current rate structure is inadvertently skewed to generate less revenue from water sales,
4 therefore, does not promote efficient water use.

5
6 **Q. Is Staff recommending adoption of the Company's proposed rate structure?**

7 A. In part, yes. Staff recommends adoption of the Company's proposed change to its
8 vending machine tariff.

9
10 **Q. Has Staff recommended any modification to the Company's proposed rates?**

11 A. Yes. Staff recommends that the Commission retain the Company's current monthly
12 minimum charges for the reasons previously discussed above. In other words, Staff is
13 recommending that its recommended rate increase be assessed through the Company's
14 commodity rates, to derive more revenue from the commodity rates. Staff's
15 recommendation generates 50 percent of Staff's recommended revenue requirement from
16 both monthly minimum charges and commodity rates.

17
18 **Q. What is the impact of Staff's recommended rate design of a residential customer with
19 a median consumption?**

20 A. Staff's recommended rate design will increase the monthly bill of a residential customer
21 on a 5/8 x 3/4-inch meter with a median consumption of 2,305-gallons from \$24.65 to
22 \$27.30, an increase of \$2.65 or 10.8 percent.

1 **RECOMMENDATIONS**

2 **Q. Please state Staff's recommendations in this proceeding.**

3 A. Staff recommends that the Commission approve its recommended rates and charges in this
4 proceeding.

5
6 Staff recommends that the rates and charges approved by the Commission in this
7 proceeding not become effective until the Mt. Tipton demonstrate that its water loss is less
8 than 10 percent and it is in full compliance with Decision No. 67162.

9
10 Staff recommends that the Company adopt its recommended depreciation rates by
11 individual National Association of Regulatory Commissioners Association plant category,
12 depicted on Figure 5 of Engineering Report.

13
14 Staff recommends that the Company's emergency interim surcharge be discontinued on
15 December 31, 2010 or on the effective date of the decision in this proceeding, whichever
16 comes first.

17
18 **Q. Does this conclude your Testimony?**

19 A. Yes.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 588,112	\$ 588,112	\$ 569,275	\$ 569,275
2	Adjusted Operating Income (Loss)	\$ (17,643)	\$ (17,643)	\$ (9,611)	\$ (9,611)
3	Current Rate of Return (L2 / L1)	-3.00%	-3.00%	-1.69%	-1.69%
4	Required Rate of Return	10.00%	10.00%	8.39%	8.39%
5	Required Operating Income (L1 * L4)	\$ 58,811	\$ 58,811	\$ 47,787	\$ 47,787
6	Operating Income Deficiency (L5 - L2)	\$ 76,454	\$ 76,454	\$ 57,398	\$ 57,398
7	Gross Revenue Conversion Factor	1.0204	1.0204	1.0363	1.0363
8	Required Revenue Increase (L7 * L6)	\$ 78,014	\$ 78,014	\$ 59,482	\$ 59,482
9	Adjusted Test Year Revenue	\$ 294,493	\$ 294,493	\$ 294,493	\$ 294,493
10	Proposed Annual Revenue (L8 + L9)	\$ 372,506	\$ 372,506	\$ 353,975	\$ 353,975
11	Required Increase in Revenue (%)	26.49%	26.49%	20.20%	20.20%

References:

Columns [A] and [B]: Company Schedules A-1, A-2, & D-1
Columns [C] and [D]: STAFF Schedules All-2, All-3 and All-8

FINANCIAL ANALYSIS

CALCULATION OF FINANCIAL INDICES

		<u>[A]</u>
1	Operating Income	\$ 47,787
2	Depreciation & Amort.	49,695
3	Income Tax Expense	0
4		
5	Interest Expense	24,329
6	Repayment of Principal	53,340
7		
8		
9	TIER	
10	[1+3] ÷ [5]	1.96
11	DSC	
12	[1+2+3] ÷ [5+6]	1.26
13		
14		
15		
16		
17		
18	Short-term Debt	\$0
19		
20	Long-term Debt	\$917,387
21		
22	Common Equity	(\$364,892)
23		
24	Total Capital	\$552,495
25		
26		
27		

Mount Tipton Water Company, Inc.

Docket No. W-02105A-09-0522

Test Year Ended June 30, 2009

Schedule All-3

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,727,581	\$ 189,160	\$ 1,916,741
2	Less: Accumulated Depreciation	1,147,977	64,696	\$ 1,212,673
3	Net Plant in Service	<u>\$ 579,604</u>	<u>\$ 124,464</u>	<u>\$ 704,068</u>
<u>LESS:</u>				
4	Net Contribution in Aid of Construction (CIAC)	\$ 67,502	\$ -	\$ 67,502
6	Advances in Aid of Construction (AIAC)	22,612	\$ 121,992	\$ 144,604
8	Customer Deposits	-	\$ 14,940	\$ 14,940
10	Total Deductions	<u>\$ 90,114</u>	<u>136,932</u>	<u>\$ 227,046</u>
<u>ADD:</u>				
11	Allowance for Working Capital	\$ 98,622	(6,368)	92,254
12	Deferred Income Taxes	-	\$ -	-
13	Total Additions	<u>\$ 98,622</u>	<u>(6,368)</u>	<u>\$ 92,254</u>
14	Original Cost Rate Base	<u><u>\$ 588,112</u></u>	<u><u>\$ (18,837)</u></u>	<u><u>\$ 569,275</u></u>

References:

Column [A], Company Response of Staff DR All 4-1 and Schedule B-1

Column [B]: Column [C] - Column [A], Schedule All-4

Column [C]: Schedule All-4, Company Response of Staff DR All 4-1, All 4-2, All 4-4, All 7-1, All 7-2

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] STAFF ADJUSTED
PLANT IN SERVICE									
1	Intangible Plant								
2	Organization	\$ 17,450	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,450
3	Franchises	500	-	-	-	-	-	-	500
4	Land & Land Rights	9,842	-	-	-	-	-	-	9,842
5	Subtotal Intangible	\$ 27,792	-	-	-	-	-	-	\$ 27,792
6	Source of Supply								
7	Structures & Improvements	\$ 82,684	(27,295)	-	-	-	-	-	\$ 55,389
8	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
9	Lake River and Other Intakes	-	-	-	-	-	-	-	-
10	Wells and Springs	471,335	(11,381)	-	-	-	-	-	459,954
11	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
12	Supply Mains	-	-	-	-	-	-	-	-
13	Power Generating Equipment	-	-	-	-	-	-	-	-
14	Electric Pumping Equipment	25,923	48,885	-	-	-	-	-	74,808
15	Collecting & Impounding Reservoirs	-	-	-	-	-	-	-	-
16	Lakes, Rivers, Other Intakes	-	-	-	-	-	-	-	-
17	Subtotal Source of Supply	\$ 579,942	\$ 10,209	-	-	-	-	-	\$ 590,151
Water Treatment									
18	Water Treatment Equipment	\$ -	-	-	-	-	-	-	-
	Solution Chemical Feeders	\$ 53,075	-	-	-	-	-	-	53,075
19	Structures & Improvements	-	-	-	-	-	-	-	-
20	Other Power Production	-	-	-	-	-	-	-	-
21	Electric Pumping Equipment	-	-	-	-	-	-	-	-
22	Diesel Pumping Equipment	-	-	-	-	-	-	-	-
23	Gas Engine Pumping Equipment	-	-	-	-	-	-	-	-
24	Subtotal Water Treatment	\$ 53,075	-	-	-	-	-	-	\$ 53,075
Transmission & Distribution									
25	Distribution Reservoirs & Standpipe	\$ 166,480	56,861	-	-	-	-	-	\$ 223,341
26	Transmission and Distribution Mains	685,818	109,500	-	-	-	-	-	795,318
27	Services	69,633	(2,440)	-	-	-	-	-	67,193
28	Meters	59,763	29,674	-	-	-	-	-	89,437
	Storage Tank	-	-	-	-	-	-	-	-
29	Hydrants	1,230	-	-	-	-	-	-	1,230
30	Backflow Prevention Devices	-	-	-	-	-	-	-	-
31	Other Plant and Miscellaneous Equipment	998	-	-	-	-	-	-	998
32	Subtotal Transmission & Distribution	\$ 983,922	193,595	-	-	-	-	-	\$ 1,177,517
General Plant									
33	Office Furniture and Equipment	19,856	(1,360)	-	-	-	-	-	\$ 18,496
34	Computer & Peripheral Equip.	-	5,686	-	-	-	-	-	5,686
35	Computer and Software	-	-	-	-	-	-	-	-
36	Transportation Equipment	33,671	-	-	-	-	-	-	33,671
37	Stores Equipment	-	-	-	-	-	-	-	-
38	Tools and Work Equipment	6,985	(6,471)	-	-	-	-	-	514
39	Laboratory Equipment	-	-	-	-	-	-	-	-
40	Power Operated Equipment	167	-	-	-	-	-	-	167
41	Communications Equipment - Non-Telephone	-	-	-	-	-	-	-	-
42	Communications Equipment - Telephone	-	-	-	-	-	-	-	-
43	Communications Equipment - Other	-	-	-	-	-	-	-	-
44	Miscellaneous Equipment	8,464	-	-	-	-	-	-	8,464
45	Other Tangible Plant	13,707	(12,499)	-	-	-	-	-	1,208
46	Plant Held for Future Use	-	-	-	-	-	-	-	-
47	Subtotal General Plant	\$ 82,850	(14,644)	-	-	-	-	-	\$ 68,206
51	Total Plant in Service	\$ 1,727,581	\$ 189,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,916,741
52	Less: Accumulated Depreciation	1,147,977	-	64,696	-	-	-	-	\$ 1,212,673
53	Net Plant in Service (L51 - L53)	\$ 579,604	\$ 189,160	\$ (64,696)	\$ -	\$ -	\$ -	\$ -	\$ 704,068
LESS:									
54	Net Contributions in Aid of Construction (CIAC)	67,502	-	-	-	-	-	-	67,502
55	Imputed Regulatory Contributions	-	-	-	-	-	-	-	-
56	Advances in Aid of Construction (AIAC)	22,612	-	-	121,992	-	-	-	144,604
57	Imputed Regulatory Advances	-	-	-	-	-	-	-	-
58	Customer Meter Deposits	-	-	-	-	14,940	-	-	14,940
59	Investment Tax Credits	-	-	-	-	-	-	-	-
60	Deferred Income Tax Credits (Debits)	-	-	-	-	-	-	-	-
61	Total Deductions	\$ 90,114	-	-	121,992	14,940	-	-	\$ 227,046
ADD:									
62	Allowance for Working Capital	98,622	-	-	-	-	(6,368)	-	92,254
63	Accumulated Deferred Income Taxes	-	-	-	-	-	-	-	-
64	Total Additions	\$ 98,622	-	-	-	-	(6,368)	-	\$ 92,254
65	Original Cost Rate Base	\$ 588,112	\$ 189,160	\$ (64,696)	\$ (121,992)	\$ (14,940)	\$ (6,368)	\$ -	\$ 569,275

ADJ #	Description	
1	Gross Utility Plant in Service	Schedule All-5
2	Accumulated Depreciation	Schedule All-6
3	Advances-in-Aid of Construction	Schedule All-7
4	Customer Deposits	Schedule All-8
5	Allowance for Working Capital	Schedule All-9

Mount Tipton Water Company, Inc.
Docket No. W-02105A-09-0522
Test Year Ended June 30, 2009

Schedule All-5

RATE BASE ADJUSTMENT NO. 1 - GROSS UTILITY PLANT IN SERVICE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] ADJUSTMENT</u>	<u>[C] STAFF ADJUSTED</u>
1	Gross Utility Plant in Service	<u>\$ 1,727,581</u>	<u>\$ 189,160</u>	<u>\$ 1,916,741</u>

REFERENCES:

Column [A]: Company Schedule B-1

Column [B]: Testimony All, Company's Responses to Staff DRs All 4-1 & All 7-1

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Accumulated Depreciation	<u>\$ 1,147,977</u>	<u>\$ 64,696</u>	<u>\$ 1,212,673</u>
2				
3				
4	<u>Calculation of Accumulated Depreciation</u>			
5				
6	Balance Per Decision No. 67162			\$ 867,033
7	Depreciation Expense - 2003		\$ 63,943	
8	Depreciation Expense - 2004		\$ 64,099	
9	Depreciation Expense - 2005		\$ 55,118	
10	Depreciation Expense - 2006		\$ 51,633	
11	Depreciation Expense - 2007		\$ 54,727	
12	Depreciation Expense - June 30, 2008		\$ 28,421	
13	Depreciation Expense - July 1, 2008 - June 30, 2009		\$ 59,172	
14				\$ 377,112
15	Plant Retirement - 2004		\$ (6,393)	
16	Plant Retirement - 2006		\$ (22,184)	
17	Plant Retirement - July 1, 2008 - June 30, 2009		<u>\$ (2,895)</u>	\$ (31,472)
18				
19				
20	Total Accumulated Depreciation			<u>\$ 1,212,673</u>

REFERENCES:

Column [A]: Company Schedule B-1 & B-2

Column [B]: Testimony All, Company's Response to DR All 7-2

Column [C]: Column [A] + Column [B]

Mount Tipton Water Company, Inc.
Docket No. W-02105A-09-0522
Test Year Ended June 30, 2009

Schedule All-7

RATE BASE ADJUSTMENT NO. 3 - ADVANCES-IN-AID OF CONSTRUCTION

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] ADJUSTMENT</u>	<u>[C] STAFF ADJUSTED</u>
1	Advances-in-Aid of Construction	<u>\$ 22,612</u>	<u>\$ 121,992</u>	<u>\$ 144,604</u>

REFERENCES:

Column [A]: Company Schedule B-1

Column [B]: Testimony All & , Company Response to Staff DR All 4-3

Column [C]: Column [A] + Column [B]

Mount Tipton Water Company, Inc.
Docket No. W-02105A-09-0522
Test Year Ended June 30, 2009

Schedule All-8

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] ADJUSTMENT</u>	<u>[C] STAFF ADJUSTED</u>
1	Customer Deposits	<u>\$ -</u>	<u>\$ 14,940</u>	<u>\$ 14,940</u>

REFERENCES:

Column [A]: Company Schedule B-1

Column [B]: Testimony All & Company response to Staff DR All 4-4

Column [C]: Column [A] + Column [B].

Mount Tipton Water Company, Inc.
Docket No. W-02105A-09-0522
Test Year Ended June 30, 2009

Schedule All-9

RATE BASE ADJUSTMENT NO. 5 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Working Capital	\$ 98,622	\$ (6,368)	\$ 92,254
<u>Calculation of Working Capital</u>				
	Purchasded Water		4,109	
	Purchased Power		32,204	
	Total		36,313	
	1/24th of Purchased Power/Water			1,513
	Operating & Maintenace Expense		186,454	
	1/8th of Operating & Maintenace Expense			23,307
	Prepayments by Company - Schedule E-1			67,434
	Staff recommmeded Working Capital			92,254

REFERENCES:

Column [A]: Company Schedule B-1
Column [B]: Testimony, All
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Metered Water Sales	\$ 270,419	\$ -	\$ 270,419	\$ 50,604	\$ 321,023
2	Other Operating Revenue	7,324	-	7,324	-	7,324
3	Coin-Operated Revenue	16,650	-	16,650	8,878	25,528
4	Unmetered Water Revenue	100	-	100	-	100
5	Total Operating Revenues	294,493	-	294,493	59,482	353,975
<u>OPERATING EXPENSES:</u>						
6	Salaries & Wages	93,529	-	93,529	-	93,529
7	Purchased Water	4,109	-	4,109	-	4,109
8	Purchase Power	36,926	(4,722)	32,204	-	32,204
9	Chemicals	-	-	-	-	-
10	Repairs & Maintenance	14,364	(3,000)	11,364	-	11,364
11	Office Supplies Expenses	14,376	-	14,376	-	14,376
12	Outside Services	7,155	-	7,155	-	7,155
13	Water Testing	3,716	2,973	6,689	-	6,689
14	Rent Expense	6,582	-	6,582	-	6,582
15	Transportation Expense	9,746	-	9,746	-	9,746
16	Insurance - General Liability	22,503	(13,518)	8,985	-	8,985
17	Insurance - Health & Life	-	-	-	-	-
18	Regulatory Expense	6,667	-	6,667	-	6,667
19	Miscellaneous Expense	21,361	-	21,361	-	21,361
20	Depreciation & Amortization	35,273	14,422	49,695	-	49,695
21	Property Taxes	17,019	(3,805)	13,214	894	14,108
22	Taxes Other Than Income	12,538	-	12,538	-	12,538
23	Franchise Taxes	6,271	(381)	5,890	1,190	7,080
24	Income Taxes	-	-	-	-	-
25	Total Operating Expenses	\$ 312,135	\$ (8,031)	\$ 304,104	\$ 2,084	\$ 306,188
26	Operating Income (Loss)	\$ (17,642)	\$ 8,031	\$ (9,611)	\$ 57,398	\$ 47,787

References:

Column (A): Company Schedule C-1
Column (B): Schedule All-9
Column (C): Column (A) + Column (B)
Column (D): Schedules All-1 and All-2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[V] STAFF ADJUSTED
<u>REVENUES:</u>										
1	Metered Water Sales	270,419	-							270,419
2	Other Operating Revenue	7,324								7,324
3	Coin-Operated Revenue	16,650								16,650
4	Unmetered Water Revenue	100								100
5	Total Operating Revenues	294,493	-	-	-	-	-	-	-	294,493
6										
7	<u>OPERATING EXPENSES:</u>									
8	Salaries & Wages	93,529								93,529
9	Purchased Water	4,109								4,109
10	Purchase Power	36,926	(4,722)							32,204
11	Chemicals	-								-
12	Repairs & Maintenance	14,364		(3,000)						11,364
13	Office Supplies Expenses	14,376								14,376
14	Outside Services	7,155								7,155
15	Water Testing	3,716			2,973					6,689
16	Rent Expense	6,582								6,582
17	Transportation Expense	9,746								9,746
18	Insurance - General Liability	22,503				(13,518)				8,985
19	Insurance - Health & Life	-								-
20	Regulatory Expense	6,667								6,667
21	Miscellaneous Expense	21,361								21,361
22	Depreciation & Amortization	35,273					14,422			49,695
23	Property Taxes	17,019						(3,805)		13,214
24	Taxes Other Than Income	12,538								12,538
25	Franchise Taxes	6,271							(381)	5,890
26	Income Taxes	-								-
27	Total Operating Expenses	312,135	(4,722)	(3,000)	2,973	(13,518)	14,422	(3,805)	(381)	304,104
28	Operating Income (Loss)	(17,642)	4,722	3,000	(2,973)	13,518	(14,422)	3,805	381	(9,611)

ADJ #	DESCRIPTION	REFERENCES	ADJ #	DESCRIPTION	REFERENCES
1	Purchased Power	Schedule All-12	7	Franchise Tax	Schedule All-18
2	Repairs & Maintenance	Schedule All-13			
3	Water Testing	Schedule All-14			
4	Insurance - General Liability	Schedule All-15			
5	Depreciation & Amortization	Schedule All-16			
6	Property Tax	Schedule All-17			

Mount Tipton Water Company, Inc.

Docket No. W-02105A-09-0522

Test Year Ended June 30, 2009

Schedule All-12

OPERATING INCOME ADJUSTMENT NO. 1 - PURCHASED POWER

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Power	\$ 36,926	\$ (4,722)	\$ 32,204
2	Total	<u>\$ 36,926</u>	<u>\$ (4,722)</u>	<u>\$ 32,204</u>

3

4

5 References:

6 Column (A), Company Schedule C-2 & Workpapers

7 Column (B): Testimony All & Schedule All-17 (Adj. #13/2)

8 Column (C): Column (A) + Column (B)

9

10

11 Calculation of cost of Purchased Power related to Excess Water Loss

12

Description	Gallons	Amount
14 Water Pumped	51,326,570	
15 Water Sold	39,630,460	
16 10% of Water Pumped (L14 * 10%)	5,132,657	
17 Water Sold Plus 10% (L15+L16)	<u>44,763,117</u>	
18 Excess Water Loss (L14-L17)	6,563,453	
19 Percentage of Excess Water Loss	12.79%	
20 (L18/L14)		
21 Purchased Power Expense		\$ 36,926
22 Purchased Power related to		
23 Excess Water Loss (L19*L21)		<u>\$ 4,722</u>

OPERATING INCOME ADJUSTMENT NO. 1 - PURCHASED POWER

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Power	\$ 36,926	\$ (4,722)	\$ 32,204
2	Total	<u>\$ 36,926</u>	<u>\$ (4,722)</u>	<u>\$ 32,204</u>
3				
4				
5				
6				
7	<u>Calculation of cost of Purchased Power related to Excess Water Loss</u>			
8				
9	<u>Description</u>	<u>Gallons</u>		<u>Amount</u>
10	Water Pumped	51,326,570		
11	Water Sold	39,630,460		
12	10% of Water Pumped (L14 * 10%)	5,132,657		
13	Water Sold Plus 10% (L15+L16)	<u>44,763,117</u>		
14	Excess Water Loss (L14-L17)	6,563,453		
15	Percentage of Excess Water Loss	12.79%		
16	(L18/L14)			
17	Purchased Power Expense			\$ 36,926
18	Purchased Power related to			
19	Excess Water Loss (L19*L21)			<u>\$ 4,722</u>
20				
21				
22	<u>References:</u>			
23	Column (A), Company Schedule C-1			
24	Column (B): Testimony All			
25	Column (C): Column (A) + Column (B)			

Mount Tipton Water Company, Inc.

Docket No. W-02105A-09-0522

Test Year Ended June 30, 2009

Schedule All-13

OPERATING INCOME ADJUSTMENT NO. 2 - REPAIRS & MAINTENANCE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Repairs & Maintenance	\$ 14,364	\$ (3,000)	11,364
2	Total	\$ 14,364	\$ (3,000)	\$ 11,364
3				
4				
5	<u>Amortization of cost of Clean Chamber Well</u>			
6				
7	Reported cost of Clean Chamber Well		\$ 4,500	
8	Amortized cost over three years		1500	
9	Staff adjustment		\$ (3,000)	
10				
11				
12	<u>References:</u>			
13	Column (A), Company Schedule C-1			
14	Column (B): Testimony All			
15	Column (C): Column (A) + Column (B)			

Mount Tipton Water Company, Inc.

Docket No. W-02105A-09-0522

Test Year Ended June 30, 2009

Schedule All-14

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Water Testing Expense	\$ 3,716	\$ 2,973	6,689
2	Total	\$ 3,716	\$ 2,973	\$ 6,689

3

4

5

6

References:

7

Column (A), Company Schedule C-2

8

Column (B): Testimony All & Staff Engineering Table 2, Page 4

9

Column (C): Column (A) + Column (B)

SUNRISE WATER COMPANY

Docket No. W-02069A-08-0406

Test Year Ended December 31, 2007

Schedule All-15

OPERATING INCOME ADJUSTMENT NO. 4 - GENERAL LIABILITY INSURANCE

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	General Liability Insurance	\$ 22,503	\$ (13,518)	\$ 8,985
2	Total	\$ 22,503	\$ (13,518)	\$ 8,985

References:

Column (A), Company Schedule C-1

Column (B): Testimony All (Column A - Column B)

Column (C): Company's Response to Staff DR All 6-7

OPERATING INCOME ADJUSTMENT NO. 5 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] AMOUNT	[B] DEPREC. RATE	[C] DEPREC. EXPENSE
1	301	Organization Costs	17,450	0.00%	-
2	302	Franchise Costs	500	0.00%	-
3	303	Land & Land Rights	9,842	0.00%	-
4	304	Structures & Improvements	55,389	3.33%	1,844
5	307	Wells & Springs	459,954	3.33%	15,316
6	311	Electric Pumping Equipment	74,808	12.50%	9,351
7	320	Water Treatment Equipment	-	-	-
8	320.1	Water Treatment Plants	-	-	-
9	320.2	Solutions & Feeders	53,075	20.00%	-
10	330	Distribution Reservoirs & Standpipes	-	-	-
11	330.1	Storage Tank	223,341	2.22%	4,958
12	330.2	Pressure Tanks	-	5.00%	-
13	331	Transmission & Distribution Mains	795,318	2.00%	15,906
14	333	Services	67,193	3.33%	2,238
15	334	Meters & Meter Installations	89,437	8.33%	7,450
16	335	Hydrants	1,230	2.00%	25
17	336	Backflow Prevention Devices	-	-	-
18	339	Other Plant & Misc. Equip.	998	6.67%	67
19	340	Office Furniture & Fixtures	18,496	6.67%	1,234
20	340.1	Computer & Software	5,686	20.00%	1,137
21	341	Transportation Equipment	33,671	20.00%	1,000
22	343	Tools, Shop & Garage Equipment	514	5.00%	26
23	344	Laboratory Equipment	-	10.00%	-
24	345	Power Operated Equipment	167	5.00%	8
25	345	Communications Equipment	-	10.00%	-
26	347	Miscellaneous Equipment	8,464	10.00%	-
27	348	Other Intangibles	1,208	10.00%	121
28					-
29		Total	1,916,741		60,681
30					
31		Contribution in Aid of Construction	\$ 347,002		
32		Composite Depreciation Rate	3.17%		
33		Amortization of CIAC	10,986		(10,986)
34					
35		Net Depreciation Expense			49,695
36		Company Reported Depreciation Expense			35,273
37		Staff Adjustment			14,422
38					
39					
40					
41		References:			
42		Column (A), Company Schedule C-1 & Workpapers			
43		Column (B): Testimony All			
44		Column (C): Column (A) + Column (B)			

OPERATING INCOME ADJUSTMENT NO. 6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 294,493	\$ 294,493
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 588,986	\$ 588,986
4	Staff Recommended Revenue	294,493	353,975
5	Subtotal (Line 4 + Line 5)	\$ 883,479	\$ 942,961
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 294,493	\$ 314,320
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 588,986	\$ 628,641
10	Plus: 10% of CWIP		
11	Less: Net Book Value of Licensed Vehicles	3,000	3,000
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 585,986	\$ 625,641
13	Assessment Ratio	21.00%	21.00%
14	Assessment Value (Line 12 * Line 13)	\$ 123,057	\$ 131,385
15	Composite Property Tax Rate - Obtained from ADOR	10.73800%	10.73800%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 13,214	
17	Company Proposed Property Tax	17,019	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (3,805)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 14,108
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		13,214
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 894
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 894
23	Increase in Revenue Requirement		\$ 59,482
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.503320%
REFERENCES:			
25	Line 15: Composite Tax Rate obtained from Arizona Department of Revenue		
26	Line 17: Company Schedule C-1 Page 2		
27	Line 21: Line 19 - Line 20		
28	Line 23: Schedule All-1		

Mount Tipton Water Company, Inc.
Docket No. W-02105A-09-0522
Test Year Ended June 30, 2009

Schedule All-18

OPERATING INCOME ADJUSTMENT NO 7 - FRANCHISE TAX

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENT	STAFF RECOMMENDED
1	Franchise Tax	\$ 6,271	\$ (381)	\$ 5,890
2	Total	6,271	(381)	5,890
3				
4				
5	<u>References:</u>			
6	Column (A), Company Schedule C-1 & Workpapers			
7	Column (B): Testimony All			
	Column (C): Column (A) + Column (B)			

Mount Tipton Water Company, Inc.
Docket No. W-02105A-09-0522
Test Year Ended June 30, 2009

Schedule All-19

Calculation of Gross Revenue Conversion Factor

Billings		1.000000
Uncollectible Factor		0.000000
Revenues		1.000000
Less:		0.000000
Net Revenue		1.000000
Franchise Tax	2.00000%	
Property Tax	1.50332%	
Franchise Tax & Property Tax Rate (Line 12)		0.035033
Subtotal (L3 - L4)		0.964967
Revenue Conversion Factor (L1 / L5)		1.036305

References:

Column (A), Company Schedule C-2
Column (B): Testimony All & Schedule All-2
Column (C): Column (A) + Column (B)

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed	Staff Recommended
5/8" x 3/4" Meter	\$ 19.00	\$ 26.00	\$ 19.00
3/4" Meter	\$ 28.50	\$ 39.00	\$ 28.50
1" Meter	\$ 47.50	\$ 70.00	\$ 47.50
1½" Meter	\$ 95.00	\$ 130.00	\$ 95.00
2" Meter	\$ 152.00	\$ 208.00	\$ 152.00
3" Meter	\$ 285.00	\$ 416.00	\$ 285.00
4" Meter	\$ 475.00	\$ 575.00	\$ 475.00
6" Meter	\$ 950.00	\$ 1,300.00	\$ 950.00
8" Meter	\$ 1,425.00	\$ 1,950.00	\$ 1,425.00

Commodity Rates

Staff Recommended Commodity Rates: (ALL METER SIZES)

Tier One Rate - (0 - 4,000 gallons)	\$ 3.60
Tier Two Rate - (4,001 - 9,000 gallons)	\$ 5.00
Tier Three Rate - (Over 9,000 gallons)	\$ 6.45

Company Current & Proposed Commodity Rates:

5/4 x 3/4-Inch Meter

Tier One Rate - (0 - 4,000 gallons)	\$ 2.45	\$ 2.53
Tier Two Rate - (4,001 - 9,000 gallons)	\$ 3.20	\$ 3.60
Tier Three Rate - (Over 9,000 gallons)	\$ 4.20	\$ 4.50

3/4-Inch Meter

Tier One Rate - (0 - 4,000 gallons)	\$ 2.45	\$ 2.53
Tier Two Rate - (4,001 - 15,000 gallons)	\$ 3.20	\$ 3.60
Tier Three Rate - (Over 15,000 gallons)	\$ 4.20	\$ 4.50

1-Inch Meter

Tier One Rate - (0 - 25,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 25,000 gallons)	\$ 4.20	\$ 4.50

1½-Inch Meter

Tier One Rate - (0 - 50,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 50,000 gallons)	\$ 4.20	\$ 4.50

2-Inch Meter

Tier One Rate - (0 - 125,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 125,000 gallons)	\$ 4.20	\$ 4.50

3-Inch Meter

Tier One Rate - (0 - 250,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 250,000 gallons)	\$ 4.20	\$ 4.50

4-Inch Meter

Tier One Rate - (0 - 400,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 400,000 gallons)	\$ 4.20	\$ 4.50

6-Inch Meter

Tier One Rate - (0 - 825,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 825,000 gallons)	\$ 4.20	\$ 4.50

8-Inch Meter

Tier One Rate - (0 - 1,250,000 gallons)	\$ 3.20	\$ 3.60
Tier Two Rate - (Over 1,250,000 gallons)	\$ 4.20	\$ 4.50

RATE DESIGN CONTINUED

Standpipe Commodity Rates

Bulk Sales (Per 1000 Gallons)	\$	4.20	\$	6.25	\$	6.45
Vending Rate per 58-gallons	\$	0.25				
Vending Rate per 40-gallons			\$	0.25	\$	0.25

Service Line and Meter Installation Charges	Present Rates	Company Proposed	-Staff Recommended-		
			Service Line Charge	Meter Installation	Total
5/8" x 3/4" Meter	\$438.00	\$600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4" Meter	\$462.00	\$700.00	\$ 445.00	\$ 255.00	\$ 700.00
1" Meter	\$562.00	\$810.00	\$ 495.00	\$ 315.00	\$ 810.00
1½" Meter	\$838.00	\$1,075.00	\$ 550.00	\$ 525.00	\$ 1,075.00
2" Meter Turbine	N/A	\$1,875.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
2" Meter Compound	\$1,094.00	\$2,720.00	\$ 830.00	\$ 1,890.00	\$ 2,720.00
3" Meter Turbine	N/A	\$2,715.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00
3" Meter Compound	\$1,281.00	\$3,710.00	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00
4" Meter Turbine	N/A	\$4,160.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00
4" Meter Compound	\$3,375.00	\$5,315.00	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00
6" Meter Turbine	N/A	\$7,235.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00
6" Meter Compound	\$4,781.00	\$9,250.00	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00
8" Meter Turbine	N/A	\$10,500.00	\$ 3,000.00	\$ 7,500.00	\$ 10,500.00
8" Meter Compound	\$5,000.00	\$11,200.00	\$ 3,200.00	\$ 8,000.00	\$ 11,200.00

Service Charges	Company		Staff	
	Rates	Proposed	Recommended	
Establishment	\$ 25.00	\$ 30.00	\$ 25.00	
Establishment (After Hours)	\$ 40.00	\$ 45.00	\$ 40.00	
Reconnection (Delinquent)	\$ 40.00	\$ 45.00	\$ 40.00	
Reconnection (After Hours)	\$ 40.00	\$ 45.00	\$ 40.00	
Meter Test (If Correct)	\$ 40.00	\$ 40.00	\$ 40.00	
NSF Check	\$ 15.00	\$ 25.00	\$ 20.00	
Meter Re-Read (If Correct)	\$ 10.00	\$ 20.00	\$ 15.00	
Deposit	*	*	*	
Deposit Interest (Per Month)	*	**	**	
Deferred Payment (Per Month)	**	**	N/A	
Late Charge (Per Month)	**	**		
Re-Establishment (Within 12 Months)	***	***	***	
Main Extension	N/A	Cost	Cost	

RATE DESIGN CONTINUED

<u>Monthly Service Charge for Fire Sprinkler</u>	<u>Present Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
4" or Smaller	N/A	****	*****
6"	N/A	****	*****
8"	N/A	****	*****
10"	N/A	****	*****
Larger than 10"	N/A	****	*****

* Per Commission Rule ACC R14-2-403(B)(7)

** Per Commission Rule ACC R14-2-403(B)(3)

*** Months off system times the monthly minimum AAC R14-2-403(D)

**** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

***** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS

General Service 5/8 x 3/4- Inch Meter Residential

Average Number of Customers: 680

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	3,552	\$27.70	\$35.00	\$7.30	26.4%
Median Usage	2,305	\$24.65	\$31.84	\$7.19	29.2%

<u>Staff Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	3,552	\$27.70	\$31.79	\$4.09	14.8%
Median Usage	2,305	\$24.65	\$27.30	\$2.65	10.8%

Present & Proposed Rates (Without Taxes) General Service 5/8 x 3/4- Inch Meter Residential

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$19.00	\$26.00	36.8%	\$19.00	0.0%
1,000	21.45	28.53	33.0%	22.60	5.4%
2,000	23.90	31.07	30.0%	26.20	9.6%
3,000	26.35	33.60	27.5%	29.80	13.1%
4,000	28.80	36.14	25.5%	33.40	16.0%
5,000	32.00	39.74	24.2%	38.40	20.0%
6,000	35.20	43.34	23.1%	43.40	23.3%
7,000	38.40	46.94	22.2%	48.40	26.0%
8,000	41.60	50.54	21.5%	53.40	28.4%
9,000	44.80	54.14	20.8%	58.40	30.4%
10,000	49.00	58.64	19.7%	64.85	32.3%
15,000	70.00	81.14	15.9%	97.10	38.7%
20,000	91.00	103.64	13.9%	129.35	42.1%
25,000	112.00	126.14	12.6%	161.60	44.3%
50,000	217.00	238.64	10.0%	322.85	48.8%
75,000	322.00	351.14	9.0%	484.10	50.3%
100,000	427.00	463.64	8.6%	645.35	51.1%
125,000	532.00	576.14	8.3%	806.60	51.6%
150,000	637.00	688.64	8.1%	967.85	51.9%
175,000	742.00	801.14	8.0%	1,129.10	52.2%
200,000	847.00	913.64	7.9%	1,290.35	52.3%

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

APPLICATION OF MOUNT TIPTON WATER)
CO., INC. FOR INCREASE IN ITS WATER)
RATES)
_____)

DOCKET NO. W-02105A-09-0522

DIRECT TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 26, 2010

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PURPOSE OF TESTIMONY	2
ENGINEERING REPORT	3
RECOMMENDATIONS AND CONCLUSIONS	4

EXHIBITS

Engineering Report for Mount Tipton Water CO., Inc.....	DMH-1
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INTRODUCTION

Q. Please state your name and business address.

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what position are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a Utilities Engineer - Water/Wastewater in the Utilities Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since January 1998.

Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports, interpreting rules and regulations, and to suggest corrective action and provide technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed more than 90 companies fulfilling these various responsibilities for Utilities Division Staff ("Staff").

Q. Have you previously testified before this Commission?

A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of
3 Science degree in Civil Engineering.
4

5 **Q. Briefly describe your pertinent work experience.**

6 A. Before my employment with the Commission, I was an Environmental Engineer for the
7 Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time,
8 I was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for
9 approximately five years.
10

11 **Q. Please state your professional membership, registrations, and licenses.**

12 A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the
13 American Society of Civil Engineering ("ASCE"), American Water Works Association
14 ("AWWA") and Arizona Water & Pollution Control Association ("AWPCA").
15

16 **PURPOSE OF TESTIMONY**

17 **Q. What was your assignment in this rate proceeding?**

18 A. My assignment was to provide Staff's engineering evaluation for the subject Mount
19 Tipton Water Co., Inc. ("Mount Tipton" or "Company") rate proceeding.
20

21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. To present the findings of Staff's engineering evaluation of operations for the Company.
23 The findings are contained in the Engineering Report that I have prepared for this
24 proceeding. The report is included as Exhibit DMH-1 in this pre-filed testimony.
25

ENGINEERING REPORT

Q. Would you briefly describe what was involved in preparing your Engineering Report for this rate proceeding?

A. After reviewing the application for the Company, I physically inspected the system to evaluate their operation and to determine if any plant items were not used and useful. I contacted the ADEQ to determine if the water system was in compliance with the Safe Drinking Water Act water quality requirements. After I obtained information from the Company regarding plant improvements, permits, chemical testing expenses, and water usage data, I analyzed that information. I also contacted the Arizona Department of Water Resources ("ADWR") to determine if the water system were in compliance with the ADWR's requirements governing water providers. Based on all the above, I prepared the attached Engineering Report.

Q. Please describe the information contained in your Engineering Report.

A. The Report is divided into three general sections: 1) Executive Summary; 2) Engineering Report Discussion, and 3) Engineering Report Exhibits. The Discussions section for Mount Tipton can be further divided into ten subsections: A) Introduction And Location of the Company; B) Description of the Water System; C) ADEQ Compliance; D) ACC Compliance; E) ADWR Compliance; F) Water Testing Expenses; G) Water Usage; H) Growth; I) Depreciation Rates; L) Other Issues. These subsections provide information about the water system serving the Company's customers.

1 **RECOMMENDATIONS AND CONCLUSIONS**

2 **Q. What are Staff's conclusions and recommendations regarding the Company's**
3 **operations?**

4 A. Staff's conclusions and recommendations regarding the Company's operations are listed
5 below.

6
7 **Recommendations**

8 I. Staff recommends that Mount Tipton water testing expenses be adjusted to the
9 annual expense amount of \$6,689 as shown in Table 2.

10
11 II. Staff recommends approval of separate meter and service line installation charges
12 as shown under the Staff Recommended columns in Table 6.

13
14 III. Staff recommends that any rate increase resulting from this rate proceeding not
15 become effective until the Company demonstrates that its water loss is less than 10
16 percent and it is in full compliance with Decision No. 67162, and Decision No.
17 70837.

18
19 IV. Staff recommends the depreciation rates by individual National Association of
20 Regulatory Utility Commissioners ("NARUC") category, as delineated in Figure 5.

21
22 **Conclusions:**

23 I. Arizona Department of Environmental Quality ("ADEQ") has determined that
24 Mount Tipton is currently in full compliance with its requirements and is
25 delivering water that meets the water quality standards required by Arizona
26 Administrative Code, Title 18, Chapter 4.

1 II. Mount Tipton is not located in any Active Management Area, as designated by the
2 ADWR. ADWR has determined that the Company is currently in compliance with
3 departmental requirements governing water providers and/or community water
4 systems.

5
6 III. Mount Tipton has an approved cross connection and backflow tariff.

7
8 IV. A check of the Utilities Division Compliance database showed there are several
9 delinquent compliance items for the Company:

- 10 a. Company is required to reduce its water loss to less than 10 percent by
11 February 10, 2006 (Decision No. 67162);
- 12 b. Company shall analyze its water supply storage, create a plan proposing
13 what it believes to be the most effective solution for improving its water
14 supply and explaining its rationale, and file the plan in its permanent
15 ratemaking docket by November 2, 2009 (Decision No. 70837); and,
- 16 c. Company shall file the following in its permanent ratemaking docket by
17 November 2, 2009: (1) a consolidated Hook-Up Fee report that shows for
18 each Hook-Up Fee charged during calendar year 2008 (a) the date on
19 which the Hook-Up Fee was charged, (b) the name of the customer charged
20 the Hook-Up Fee, (c) the service address for which the Hook-Up Fee was
21 charged, (d) the meter size for the service address, and (e) the amount of
22 the Hook-Up Fee charged; and (2) a consolidated Hook-Up Fee
23 expenditures report that includes for each expenditure of Hook-Up Fee
24 funds during calendar year 2008 (a) the date on which the expenditures was
25 made; (b) the amount of the expenditures; © a description of what was

1 purchased or paid for; and (d) a copy of the invoice, statement, or receipt
2 for the item purchased or paid for (Decision No. 70837).

3

4 V. Staff concludes that the Company has adequate production and storage capacity to
5 serve its existing customers and projected growth for a five-year planning horizon.

6

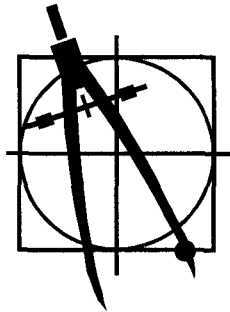
7 **Q. Does this conclude your Direct Testimony?**

8 A. Yes, it does.

ENGINEERING REPORT FOR MOUNT TIPTON WATER COMPANY, INC.,

BY DOROTHY HAINS

MAY 26, 2010



**Engineering Report
For Mount Tipton Water Company,
Inc.**

**Docket No. W-02105A-09-0522
(Rate Application)**

By Dorothy Hains

May 26, 2010

EXECUTIVE SUMMARY

Recommendations:

- I. Staff recommends that Mount Tipton Water Company, Inc. ("Mount Tipton" or "Company") water testing expenses be adjusted to the annual expense amount of \$6,689 as shown in Table 2. (See §F of report for discussion and details.)
- II. Staff recommends approval of separate meter and service line installation charges as shown under the Staff Recommended columns in Table 6. (See §J of report for discussion and details.)
- III. Staff recommends that any rate increase resulting from this rate proceeding not become effective until the Company demonstrates that its water loss is less than 10 percent and it is in full compliance with Decision No. 67162, and Decision No. 70837. (See §D & G of report for discussion and details.)
- IV. Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Figure 5. (See §I of report for discussion and details.)

Conclusions:

- I. Arizona Department of Environmental Quality ("ADEQ") has determined that Mount Tipton is currently in full compliance with its requirements and is delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §C for a discussion and details.)
- II. Mount Tipton is not located in any Active Management Area, as designated by the Arizona Department of Water Resource ("ADWR"). ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems. (See §E of report for discussion and details.)
- III. Mount Tipton has an approved cross connection and backflow tariff.

- IV. A check of the Utilities Division Compliance database showed there are several delinquent compliance items for the Company. (See §D of report for discussion and details.)

- V. Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and projected growth for a five-year planning horizon. (See §B of report for discussion and details.)

TABLE OF CONTENTS

	PAGE
A. INTRODUCTION AND LOCATION OF COMPANY	1
B. DESCRIPTION OF THE WATER SYSTEM.....	1
<i>Water System Analysis</i>	1
C. ADEQ COMPLIANCE.....	3
D. ACC COMPLIANCE	3
E. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE	4
F. WATER TESTING EXPENSES.....	4
G. WATER USAGE.....	5
1. <i>Water Sold</i>	5
2. <i>Lost Water</i>	6
H. GROWTH	6
I. DEPRECIATION RATES	7
J. OTHER ISSUES	7
1. <i>Service Line and Meter Installation Charges</i>	7
2. <i>Curtailment Tariff</i>	8
3. <i>Cross Connection & Backflow Tariff</i>	8

FIGURES

FIGURE 1. MOUNT TIPTON WATER COMPANY CERTIFIED AREA	10
FIGURE 2. LOCATION OF MOUNT TIPTON WATER COMPANY	11
FIGURE 3A. MOUNT TIPTON WATER COMPANY PROCESS SCHEMATIC.....	12
FIGURE 3B. MOUNT TIPTON WATER COMPANY PROCESS SCHEMATIC.....	13
FIGURE 3C. MOUNT TIPTON WATER COMPANY PROCESS SCHEMATIC.....	14
FIGURE 4. MOUNT TIPTON WATER COMPANY WATER USAGE	15
FIGURE 5. FIGURE 5. DEPRECIATION RATES FOR MOUNT TIPTON WATER COMPANY	16
FIGURE 6. ACC COMPLIANCE REPORT	17

A. INTRODUCTION AND LOCATION OF COMPANY

On November 13, 2009, Mount Tipton Water Company, Inc. ("Mount Tipton" or "Company") filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to amend its rates using a test year ending June 30, 2009. On December 14, 2009, Mount Tipton's rate application was found sufficient. This report presents Commission Staff's engineering analysis, conclusions and recommendations in this matter.

Mount Tipton serves water to approximately 720 customers and is located approximately 35 miles northeast of the City of Kingman in Mohave County. Figure 1 describes the Certificate of Convenience and Necessity ("CC&N") area of Mount Tipton, and Figure 2 describes the location of Mount Tipton.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on March 24 and 25, 2010, by Dorothy Hains, Utilities Engineer, accompanied by Company representatives, Donald Bertroch (the Company's President) and Tim Clark (the Company's Field Manager).

Water System Analysis

At the time of Staff's inspection the Mount Tipton water system consisted of: four active drinking water wells capable of producing a total flow of 114 gallons per minute ("GPM"); 498,500 gallons of storage capacity; several booster systems; and, a distribution system serving 721 metered connections. On May 13, 2010, the Company reactivated the LDS Church Well, with the addition of this well, and its 10 GPM pump yield, the water system is now capable of producing a total flow of 124 GPM and has adequate well production. Staff concludes that the Company has adequate production and storage capacity to serve its existing customers and anticipated growth.

Figures 3A, 3B and 3C provide a process schematic showing both the active and inactive components of the water system at the time of Staff's inspection; a detailed description of the facility's system is as follows:

Table 1 Water System Data (Mt. Tipton)
Active Drinking Water Wells

Well #	ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)
Well #2 (Iron Well)	55-508835	1984	8	700	2	20	19
Well #5 (Chamber Well)	55-510178	1985	8	900	2	15	48
Well #7 (Field Well)	55-601847	1978	6 $\frac{3}{4}$	500	2	7 $\frac{1}{2}$	30

Well #8 (Horizontal Well)	55-601848	1972	2	147	2	2	16
Well #9 (Spring Well)	55-601849	N/A	2	N/A	2	3	0.8
Well #4 (Detrital Well)	55-502441	1982	8	4	4	50	240

Note: 1. Well #9 is used as a backup well during emergencies.

2. Well #4 provides stand pipe service only and is not interconnected with the rest of the water system.

Inactive Wells

Well #	ADWR No.	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)	Year Drilled	Year out of service
Well #3 (LDS Church Well) ¹	55-520733	8	540	2	5	10	1988	2010
Well #1 (Office Well) ²	55-606511	8	600	2	20	40	1972	2010
Well #6 ³	55-601846	8	500	2	40	20	1966	N/A

Note: 1. Staff noted during its inspection that the inactive wells listed above had been disconnected from the system according to the Company each well was disconnected because the casing had collapsed.

Active Storage and Pumping

Location	Structure or equipment	Capacity
Well #7 Site	Storage Tank	Two 10,000 gallon tanks One 8,500 gallon tank
	Booster pumps	One 7½-HP pump & one 10-HP pump
Tank #3 Site	Booster Pumps	Two 5-HP
	Storage Tank	One 55,000 gallon tank & one 80,000 gallon tank
Tank #1 Site	Storage Tank	One 50,000 gallon tank & one 200,000 gallon tank
Well #5 Site	Pressure Tank	One 10,000 gal
	Storage Tank	One 10,000 gallon storage tank
	Booster pump	One 5-HP booster pump
Tank #4 Site	Storage Tank	One 50,000 gallon tank & 25,000 gallon tank

Distribution Mains

Diameter (inches)	Material	Length (feet)
8	N/A	11,490
6	N/A	76,580
4	N/A	2,964
3	N/A	680
2	polyvinyl chloride ("PVC")	8,945

Meters

Size (inches)	Quantity
$\frac{5}{8} \times \frac{3}{4}$	905
$\frac{3}{4}$	0
1	1
1½	1
2	2
3	0
4	1
6	0
8	0

Non-potable Water System

Well #	ADWR No.	Year Drilled	Casing Size (inches)	Well Depth (ft)	Well Meter Size (inches)	Pump (HP)	Pump Yield (GPM)
Non-potable water Well #1	N/A	N/A	N/A	N/A	N/A	N/A	8
Non-potable water Well #2	N/A	N/A	N/A	N/A	N/A	N/A	4

Non-potable Water Active Storage, Pumping

Location	Structure or equipment	Capacity
N/A	Storage Tank	One 70,000 gallon tank

C. ADEQ COMPLIANCE

ADEQ has determined that the Mount Tipton water system ADEQ Public Water System No. 08-059 is currently in full compliance with its requirements.¹ ADEQ further states that Mount Tipton is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

D. ACC COMPLIANCE

A check of the Utilities Division Compliance database showed there are several delinquent compliance items for the Company. (See Figure 6 Compliance Section memorandum dated May 20, 2010, for details.)

¹ ADEQ compliance status report dated January 6, 2010.

E. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

Mount Tipton is not located in any Active Management Area, as designated by ADWR. ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.²

F. WATER TESTING EXPENSES

Mount Tipton is subject to mandatory participation in the ADEQ Monitoring Assistance Program (“MAP”). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria and disinfection by-products.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. All monitoring expenses are based on Staff’s best knowledge of lab costs and methodology and two point-of-entry.
4. The estimated water testing expenses represent a minimum cost based on no “hits” other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table 2 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount of \$6,689 as shown in Table 2.

Table 2 Water Testing Cost (Mt. Tipton PWS #08-059)

Monitoring	Cost per test	No. of annual tests	Annual Cost
Bacteriological – monthly	\$20	72	\$1,440
Inorganics – Priority Pollutants	\$300	MAP	MAP
Radiochemical – (1/ 4 yr)	\$60	MAP	MAP
Phase II and V:			
IOC’s, SOC’s, VOC’s	\$2,805	MAP	MAP
Nitrites	\$20	MAP	MAP

² ADWR compliance status report dated January 26, 2009.

Nitrates – annual	\$40	12	MAP
Asbestos – per 9 years	\$180	2½	MAP
Lead & Copper – annual*	\$45	20	\$450
TTHM/HHAs – per 3 years	\$385	2	\$770
Maximum chlorine residual levels	\$20	72	\$1,440
MAP fees (annual)			\$2588.70
Total			\$6,689

G. WATER USAGE

Table 3 is the water usage data reported by the District for the test year of July 2008 through June 2009. Figure 4 is a graph that shows water consumption data in gallons per day (“GPD”) per customer for the system for the test year period of July 2008 through June 2009.

Table 3 Water Usage in the System (Mt. Tipton)

Month	Number of Customers	Water Sold (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gpd/customer)
Jul 08	750	4,259,540	5,425,233	0	183
Aug 08	754	3,203,970	5,165,015	0	137
Sep 08	749	3,610,330	4,730,754	0	161
Oct 08	738	3,629,790	4,016,674	0	159
Nov 08	740	2,596,730	3,247,050	0	117
Dec 08	737	2,422,265	3,379,220	0	106
Jan 09	740	3,117,720	3,798,060	0	136
Feb 09	742	1,782,665	3,087,910	0	86
Mar 09	734	2,723,865	3,574,730	0	120
Apr 09	727	3,331,710	3,647,860	0	153
May 09	728	3,610,020	4,629,280	0	160
Jun 09	721	3,6047,650	4,536,400	0	167
total		37,893,255	49,238,186	0	
Average					140

1. Water Sold

Based on information provided by the Company, water use for the test year is presented in Figure 4. The high monthly water use was 183 GPD per connection in July, and the low monthly water use was 86 GPD per connection in February. The average annual use was 140 GPD per connection.

2. Lost Water

Lost water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, fire fighting, and flushing. Lost water for Mount Tipton during the 12-month test year period of July 2008 through June 2009 was calculated to be 23 percent which exceeds acceptable limits.

In Decision No. 67162 (issued on August 10, 2004), the Commission ordered the Company to reduce its water loss to less than 10 percent within 18 months of the effective date of the Decision. Table 4 lists the water loss for calendar years 2003 through 2009 based on water use data reported by the Company.

Table 4 Annual Water Loss

Calendar Year	Water Sold (gal)*	Water Pumped (gal)*	% Water Loss
2003	49,680,450	58,104,980	14.50
2004	43,242,680	57,777,784	25.16
2005	45,597,660	47,191,297	3.38
2006	Not Reported	Not Reported	N/A
2007	39,239,210	22,735,934	-16.3
2008	38,234,720	47,999,537	20.34
2009	39,630,460	51,326,570	22.79

* Based on water use data reported in the Company's Annual Reports filed with the Commission.

The calculated water loss for the years listed varies significantly from a high water loss of 25 percent in 2004 to a low water loss of negative 16.3 percent in 2007 which calls into question the validity of the water use data reported by the Company. In fact the Company noted in its 2009 Annual Report "We are aware that some of these months are incorrect due to programming errors". Unfortunately Staff must rely on the water use data reported by the Company. Staff concludes that based on the data available, the Company's water loss exceeds ten percent and thus the Company has failed to comply with Decision No. 67162. Staff recommends that any rate increase resulting from this rate proceeding not become effective until the Company reliably demonstrates that its water loss is less than 10 percent and is in full compliance with Decision No. 67162, and Decision No. 70837.

H. GROWTH

During the period of 2001 to 2008 the Company netted an overall reduction of customer connections, customer growth through 2013 is expected to remain relatively flat.

I. DEPRECIATION RATES

Staff recommends the depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Figure 5.

J. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company proposed separate meter and service line installation charges that are within Staff’s expected range of reasonable charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends the rates proposed by the Company be approved and that the separate meter and service line installation charges as shown under the Staff Recommendation columns in Table 5 be approved.

Table 5 Service Line and Meter Installation Charges for Mt. Tipton Water

Meter Size	Current Total Service Line Installation & Meter Installation Charges	Proposed Service Line Installation Charge	Proposed Meter Installation Charge	Proposed Total Service Line Installation & Meter Installation Charge	Staff Recommendation (Service Line installation charge)	Staff Recommendation (meter installation charge)	Staff Recommendation (total charges)
5/8 x 3/4-inch	\$438	\$445	\$155	\$600	\$445	\$155	\$600
3/4-inch	\$462	\$445	\$255	\$700	\$445	\$255	\$700
1-inch	\$562	\$495	\$315	\$810	\$495	\$315	\$810
1½-inch	\$838	\$550	\$525	\$1,075	\$550	\$525	\$1,075
2-inch (Turbo)	N/A	\$830	\$1,045	\$1,875	\$830	\$1,045	\$1,875
2-inch (Compound)	\$1,094	\$830	\$1,890	\$2,720	\$830	\$1,890	\$2,720
3-inch (Turbo)	N/A	\$1,045	\$1,670	\$2,715	\$1,045	\$1,670	\$2,715
3-inch (Compound)	\$1,281	\$1,165	\$2,545	\$3,710	\$1,165	\$2,545	\$3,710
4-inch (Turbo)	N/A	\$1,490	\$2,670	\$4,160	\$1,490	\$2,670	\$4,160
4-inch (Compound)	\$3,375	\$1,670	\$3,645	\$5,315	\$1,670	\$3,645	\$5,315
6-inch (Turbo)	N/A	\$2,210	\$5,025	\$7,235	\$2,210	\$5,025	\$7,235
6-inch (Compound)	\$4,781	\$2,330	\$6,920	\$9,250	\$2,330	\$6,920	\$9,250
8-inch (Turbo)	N/A	\$3,000	\$7,500	\$10,500	\$3,000	\$7,500	\$10,500

8-inch (Compound)	\$5,000	\$3,200	\$8,000	\$11,200	\$3,200	\$8,000	\$11,200
----------------------	---------	---------	---------	----------	---------	---------	----------

2. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

3. Cross Connection & Backflow Tariff

The Company has an approved Cross Connection & Backflow Tariff.

FIGURES

FIGURE 1

MOUNT TIPTON WATER COMPANY CERTIFICATED AREA

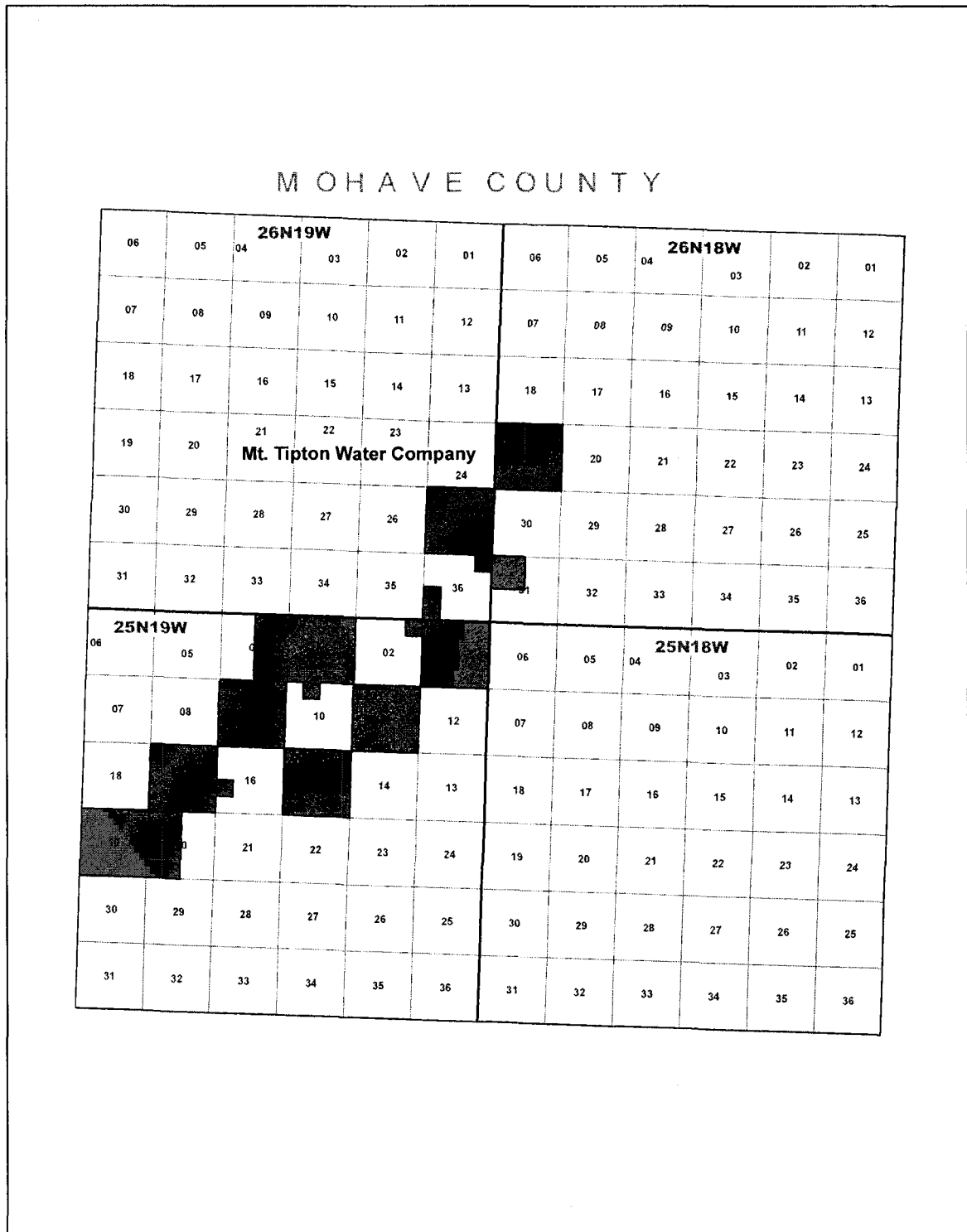


FIGURE 2

LOCATION OF MOUNT TIPTON WATER COMPANY

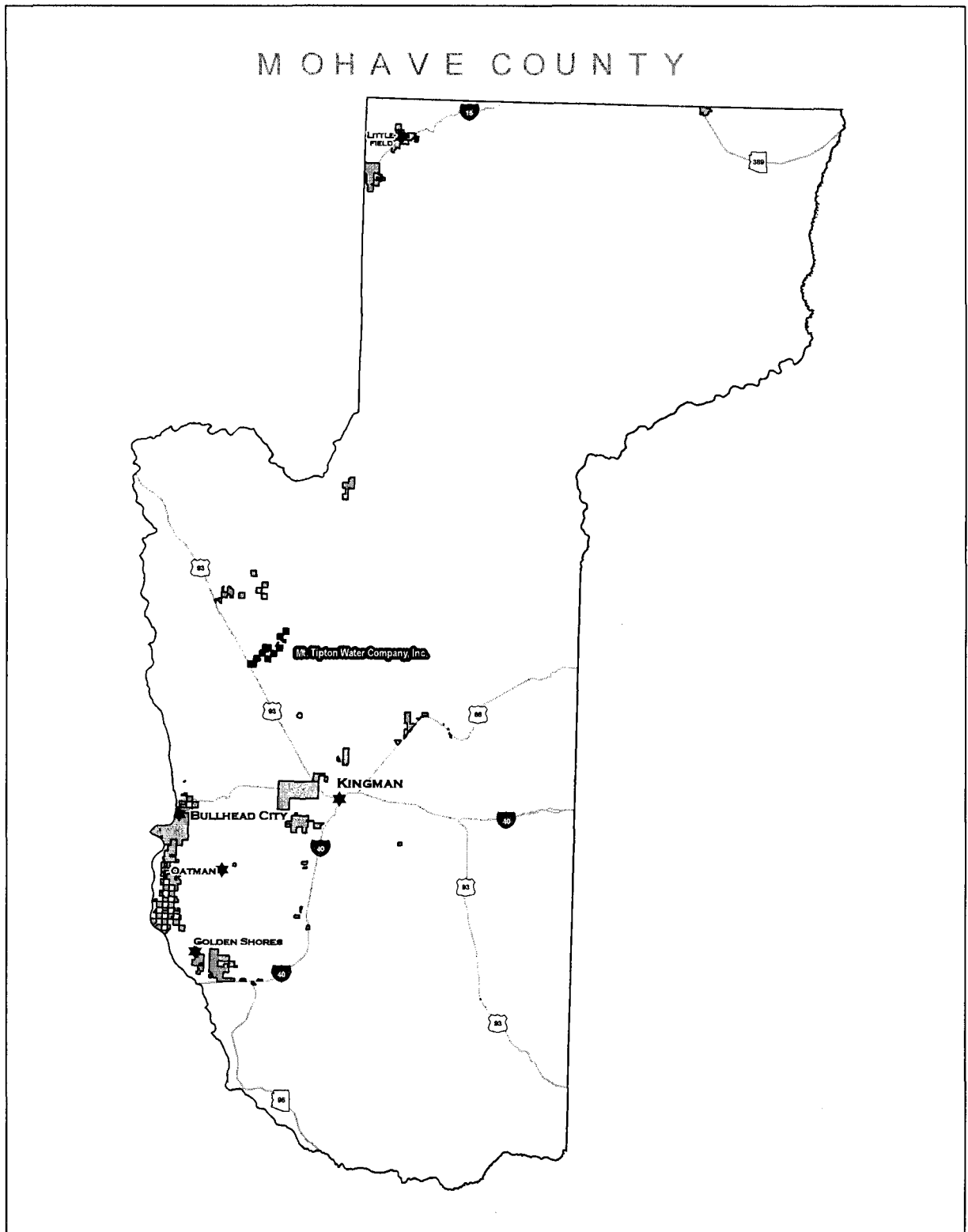


FIGURE 3A

MOUNT TIPTON WATER COMPANY SYSTEMATIC DIAGRAM

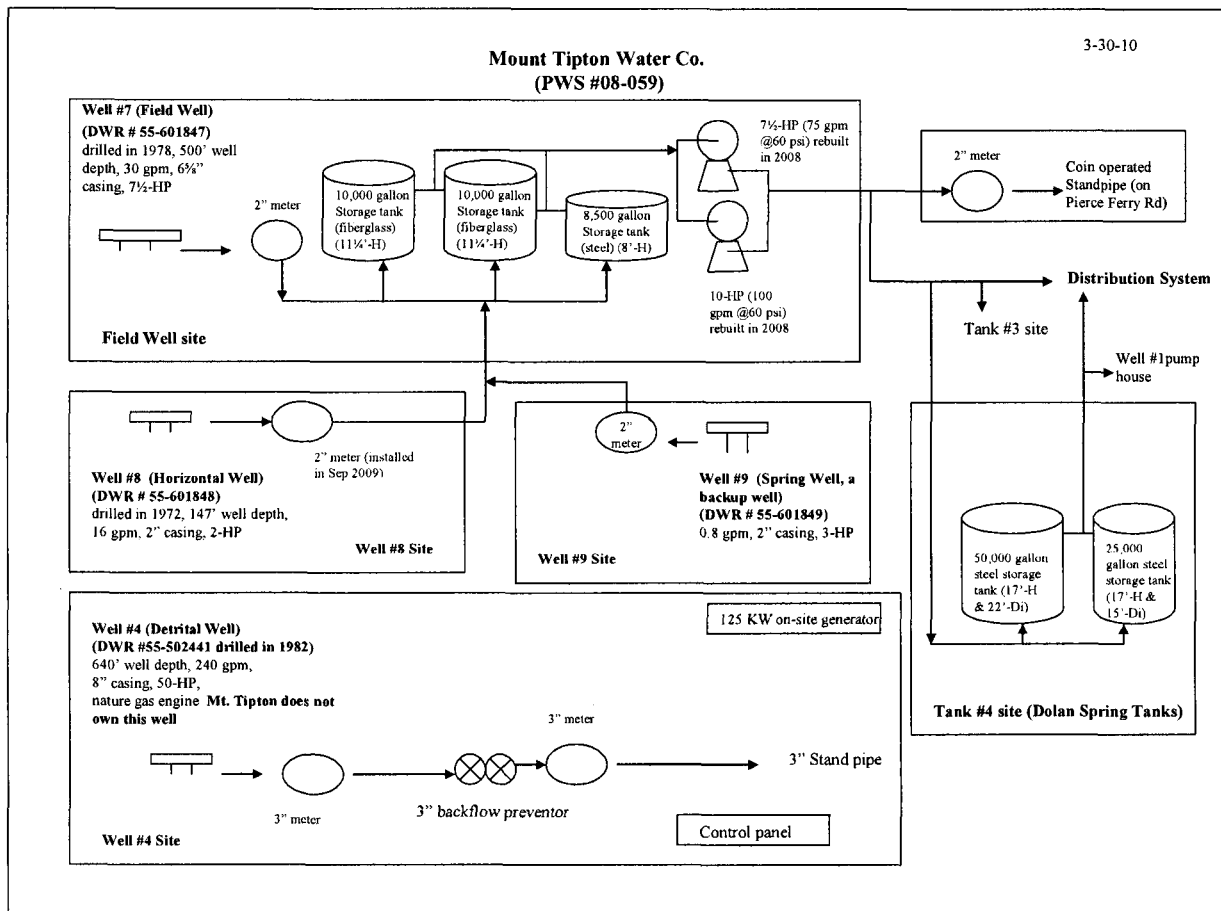


FIGURE 3B

MOUNT TIPTON WATER COMPANY SYSTEMATIC DIAGRAM

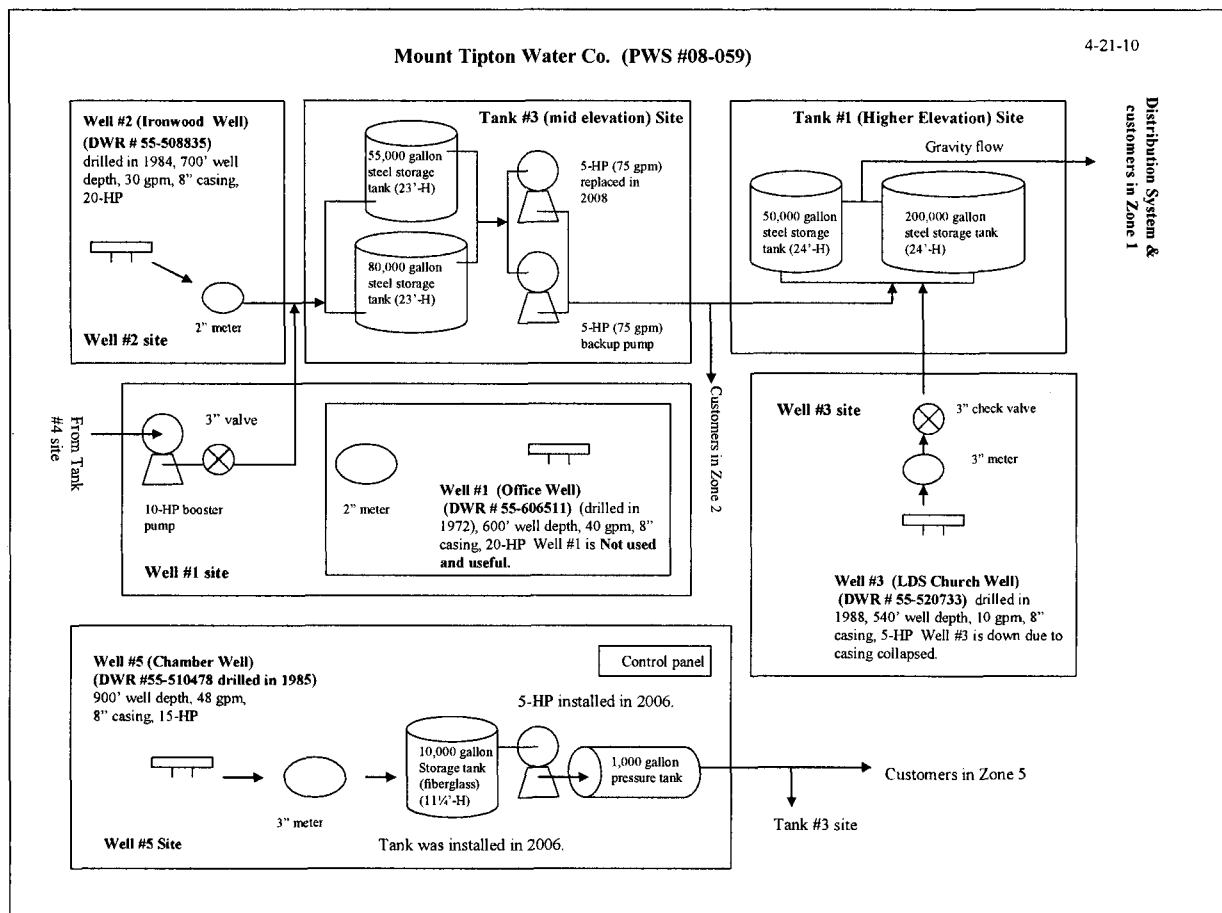


FIGURE 3C

MOUNT TIPTON WATER COMPANY SYSTEMATIC DIAGRAM

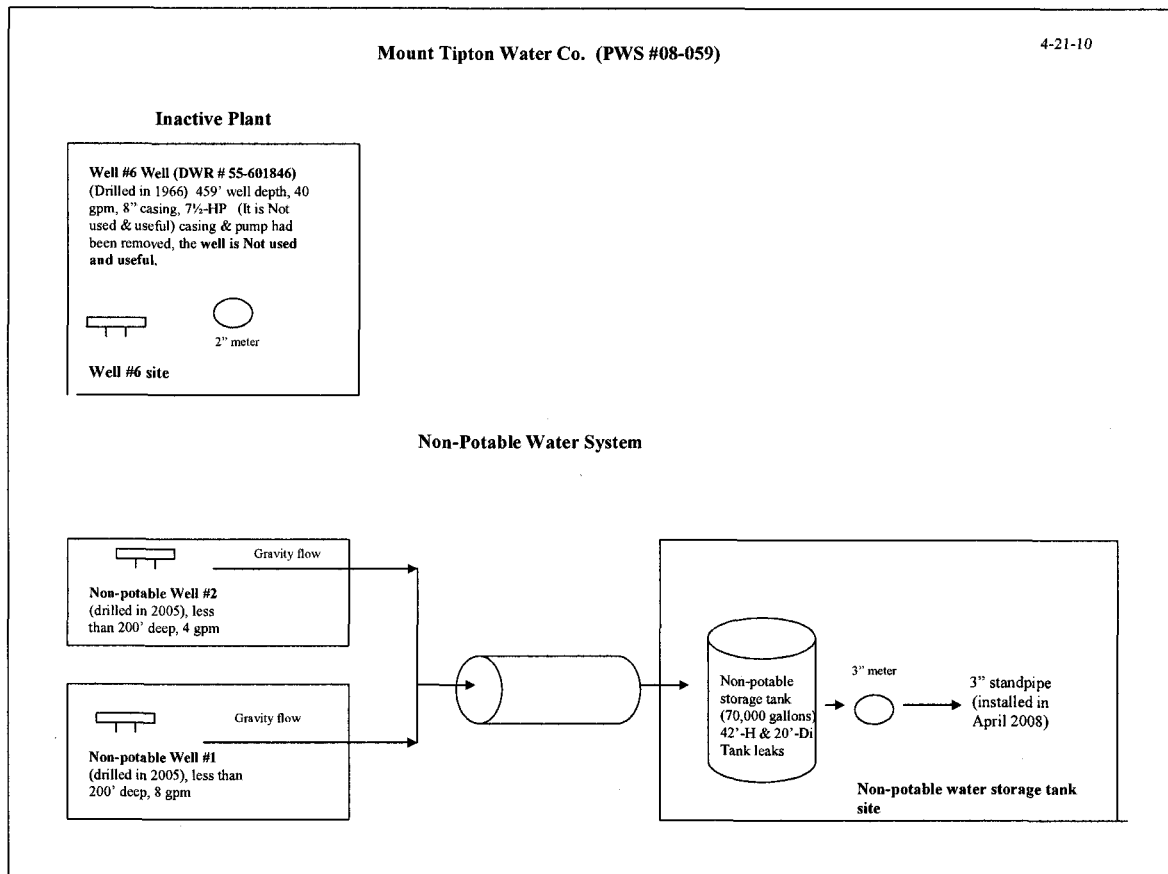


FIGURE 4

MOUNT TIPTON WATER COMPANY WATER USAGE

**During 2008-2009 Test Year Water Usage In Mount Tipton
Water Company, Inc. CC&N Area**

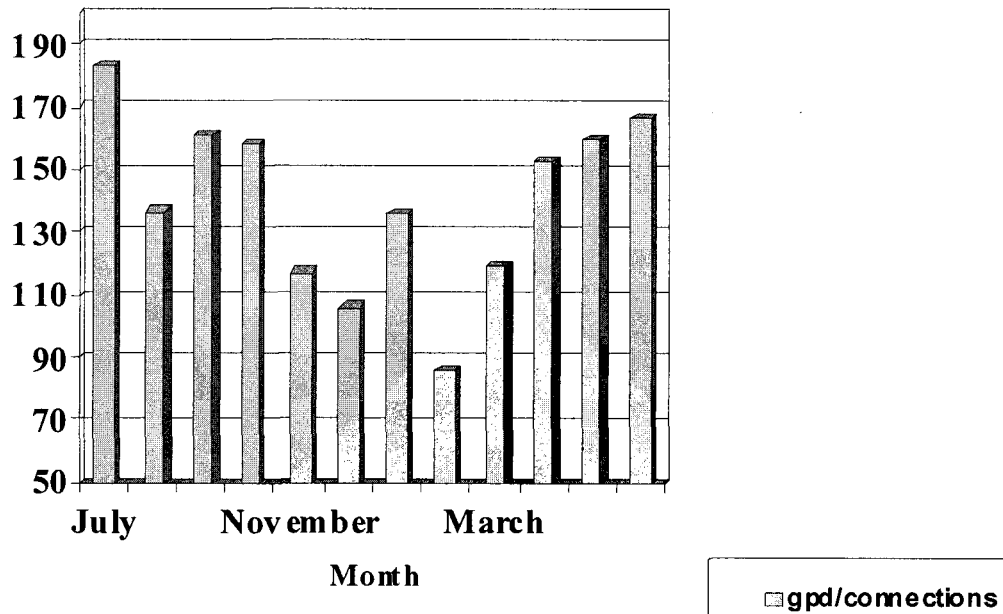


FIGURE 5

DEPRECIATION RATES FOR MOUNT TIPTON WATER COMPANY

NARUC Acct #	Depreciable Plant	Approved Rate (Decision # 67162)	Proposed Rate (%) ¹	Staff Recommended Rate (%)
301	Organization	N/A	N/A	0
302	Franchises	N/A	N/A	0
303	Land & Land Rights	N/A	N/A	0
304	Structures & Improvements	3.33	3.33	3.33
305	Collection & Impounding reservoirs	2.50	N/A	2.50
306	Lake, River, Canal Intakes	2.50	N/A	2.50
307	Wells & Springs	3.33	3.33	3.33
308	Infiltration Galleries	6.67	N/A	6.67
309	Raw Water Supply Mains	2.00	N/A	2.00
310	Power Generation Equip Other	5.00	N/A	5.00
311	Pumping Equipment	12.5	12.5	12.5
320	Water Treatment			
320.1	Water Treatment Plants	3.33	3.33	3.33
320.2	Solution Chemical Feeders	20.0	20	20.0
330	Distribution Reservoirs & Standpipes			
330.1	Storage Tank	2.22	2.22	2.22
330.2	Pressure Tank	5.00	5.00	5.00
331	Transmission and Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33
334	Meters	8.33	8.33	8.33
335	Hydrants	2.00	2.00	2.00
336	Backflow Prevention Devices	6.67	N/A	6.67
339	Other Plant & Misc Equipment	6.67	6.67	6.67
340	Office Furniture & Equipments	6.67	6.67	6.67
340.1	Computer Software	20.00	20.00	20.00
341	Transportation Equipment	20.00	20.00	20.00
342	Store Equipments	4.00	N/A	4.00
343	Tools, Shop & Garage Equipments	5.00	5.00	5.00
344	Lab equipments	10.00	N/A	10.00
345	Power operated equipments	5.00	5.00	5.00
346	Communication Equipments	10.00	N/A	10.00
347	Miscellaneous Equipment	10.00	10.00	10.00
348	Other Tangible Plant	-----	5.00	10.00 ²

Note: 1. Per the Company's Response to DR #DH-3.1.
2. Per the Company's Response to DR #DH-5.1, the plants included in this account were old Dolan Spring Water plant items. Because those plants are miscellaneous equipments, Staff recommends the same depreciation rate as Account No. 347 (for miscellaneous equipment).

FIGURE 6

ACC Compliance Report

MEMORANDUM

TO: Dorothy Hains
Engineering

FROM:  Carmel Hood
Compliance

DATE: May 20, 2010

RE: Mount Tipton Water Company, Inc.

The Compliance Database indicates that Mount Tipton is out of Compliance due to the following items:

- Company shall analyze its water supply storage, create a plan proposing what it believes to be the most effective solution for improving its water supply and explaining its rationale, and file the plan in its permanent ratemaking docket by November 2, 2009. (Decision No. 70837)
- Company shall file the following in its permanent ratemaking docket by November 2, 2009: (1) a consolidated Hook-Up Fee report that shows for each Hook-Up Fee charged during calendar year 2008 (a) the date on which the Hook-Up Fee was charged, (b) the name of the customer charged the Hook-Up Fee, (c) the service address for which the Hook-Up Fee was charged, (d) the meter size for the service address, and (e) the amount of the Hook-Up Fee charged; and (2) a consolidated Hook-Up Fee expenditures report that includes for each expenditure of Hook-Up Fee funds during calendar year 2008 (a) the date on which the expenditures was made; (b) the amount of the expenditures; © a description of what was purchased or paid for; and (d) a copy of the invoice, statement, or receipt for the item purchased or paid for. (Decision No. 70837)
- Company is required to reduce its water loss to less than 10 percent by February 10, 2006. (Decision No. 67162)